

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
FIRST SET OF INFORMATION REQUESTS FROM UWUA LOCAL 273
D. T. E. 05-27

Date: July 14, 2005

Responsible: Stephen H. Bryant, President

SUPPLEMENTAL RESPONSE

UWUA-1-5 Please provide copies of all documents, communications, press releases and other written materials that Bay State or NiSource have provided to investors, investor analysts, board members or the press regarding changes in staffing levels since September 1, 1998 and the present date.

Response: The Company does not have specific documents, communications, press releases, etc. to investors, investor analysts, board member or the press that specifically refer to staffing levels. However, the Company provides below a list of the requested materials that include references to staffing levels as well as overall strategic Company direction which may impact staffing levels.

The Company is preparing these bulk documents and will supplement this response with the attachments as soon as they are available.

See Attachment UWUA -1-5 (A) for NiSource Annual Reports from 1999 to 2004.

See Attachment UWUA – 1-5 (B) for NiSource Fact Sheets from first quarter 2003, to first quarter 2005.

See Attachment UWUA – 1-5 (C) for NiSource 2004 Statistical Summary.

See Attachment UWUA – 1-5 (D) for NiSource Analyst Presentations from February 2003 to February 2005.

See Bulk Response to AG-1-10 for NiSource Analyst Presentations from March 2000 to November 2000, which has been included for your convenience.

The Company has also provided numerous financial reports and other information in response to AG – 1-2, which was a bulk response. Please see the listing of available documents and notify the Company if any additional material is requested, which will be provided upon request.

SUPPLEMENTAL RESPONSE:

The previously referenced bulk material is included with this supplemental filing.

Attachment UWUA-01-05 (A)

Creating The Next Generation

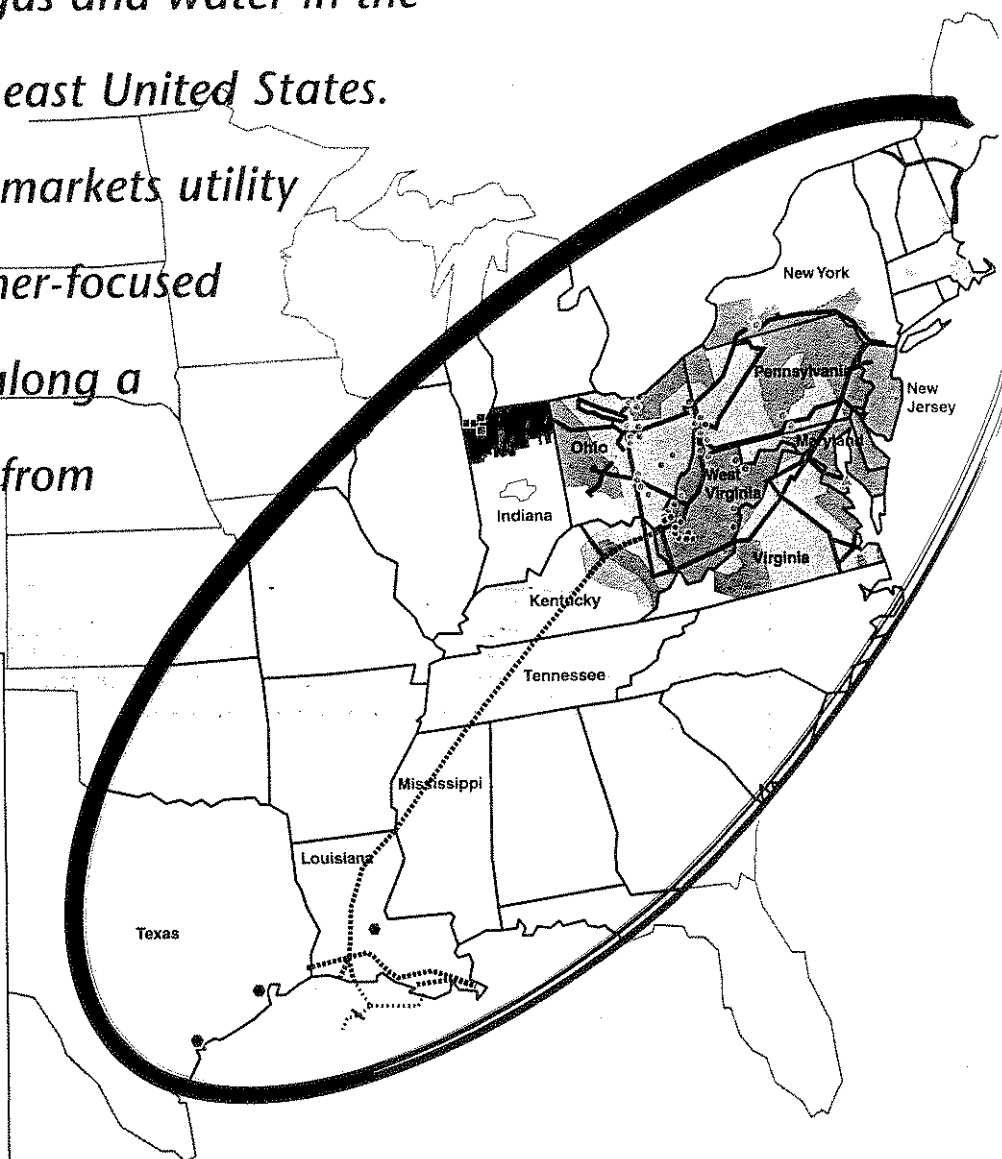
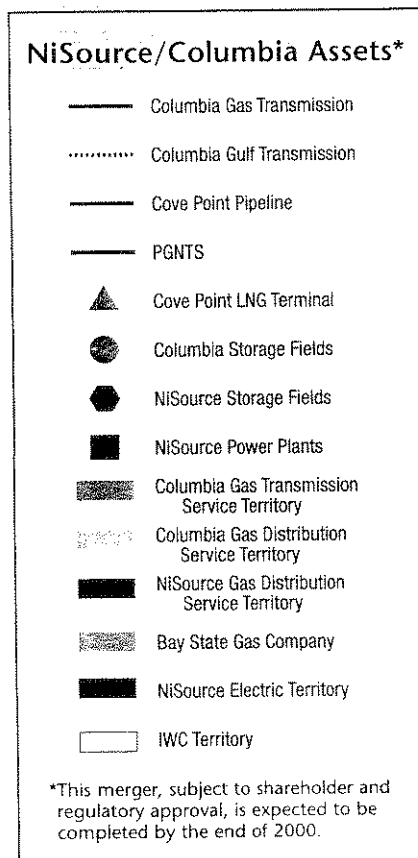


MSource

1999 Annual Report To Shareholders

NiSource Inc. is a holding company whose primary business is the distribution of electricity, natural gas and water in the Midwest and Northeast United States.

The Company also markets utility services and customer-focused resource solutions along a corridor stretching from Texas to Maine.



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On the cover: Determination, energy and focus drive salmon to their destination to create the next generation.

ONE COMPANY, STRONG BRANDS

Bay State Gas Company
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Regulated Businesses



A NiSource Company

Northern Indiana Public Service Company, serving more than 1 million customers in northern Indiana, is the state's largest natural gas distribution company and the second-largest electric company.

Bay State Gas Company is among the largest natural gas utilities in New England, serving customers in Massachusetts.



A NiSource Company



INDIANAPOLIS
COMPANY
A NiSource Company

Indianapolis Water Company, a subsidiary of IWC Resources Corporation (IWC), provides water to customers in Indianapolis and central Indiana.

IWC also provides water to customers through its subsidiary Harbour Water Corporation and its operation of Lawrence Water.

Kokomo Gas and Fuel Company is a natural gas provider with distribution service to customers in central Indiana.



A NiSource Company



Northern Indiana
Fuel and Light
A NiSource Company

Northern Indiana Fuel and Light Company, Inc., provides natural gas distribution service to customers in northeastern Indiana.

Northern Utilities, Inc., a Bay State Gas Company subsidiary, serves customers in New Hampshire and southern Maine communities.



Northern Utilities
Natural Gas
A NiSource Company



CROSSROADS
PIPELINE
COMPANY
A NiSource Company

Crossroads Pipeline Company provides gas transportation and load-management services to customers in markets extending from the Chicago hub into Indiana and Ohio.

Granite State Gas Transmission, Inc., is an interstate gas transmission system operating in Maine, Massachusetts and New Hampshire.



Granite State
Gas Transmission
A NiSource Company

Nonregulated Businesses



A NiSource Company

Primary Energy, Inc., is the leading developer of on-site industrial power generation in the United States.

Miller Pipeline Corporation, an EnergyUSA subsidiary, is a leading pipeline construction company serving the gas, water, wastewater and industrial markets throughout the United States.



Miller
Pipeline Corp.
A NiSource Company



A NiSource Company

SM&P Utility Resources, Inc., an EnergyUSA subsidiary, is the nation's largest below-ground utility locating and marking service business.

Lake Erie Land Company develops commercial and residential communities focused on environmental restoration and smart-growth principles.



Lake Erie Land Company
A NiSource Company



A NiSource Company

EnergyUSA provides for the integration of many of NiSource's nonregulated services under one umbrella, including natural gas marketing, commercial energy services, retail commodity sales and product development.

EnergyUSA-TPC is a natural gas marketer



EnergyUSA-TPC
A NiSource Company

and gas-asset portfolio manager for utilities. Its Market Hub Partners subsidiary is North America's largest independent owner and operator of salt-cavern gas storage, with facilities in Texas and Louisiana.

Dear Fellow Shareholder:

Bay State Gas Company
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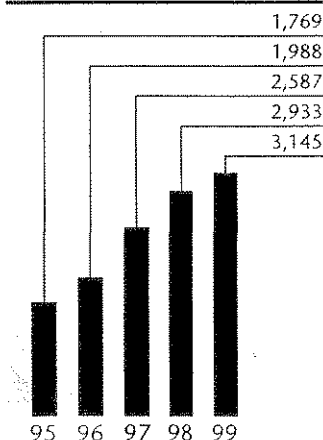
As I sat down to write my report to you, I struggled with how best to characterize the past 12 months. In many respects, 1999 was a year of overcoming adversity, much like the challenges confronted by salmon swimming upstream to spawn in Coffee Creek near my home here in northern Indiana. After roaming the expanse of the Great Lakes, the salmon focus on a single destination. They fight their way upstream—against the elements, over the rocks and past the predators—with perseverance and determination until they reach their goal. They are focused solely on creating the next generation.

As in any industry undergoing structural change, companies in the energy industry have been struggling to redefine themselves. They are trying to find their way, choose the right destination and set their direction in an environment that is constantly changing. At NiSource, we believe the evolving energy marketplace offers unparalleled opportunity for growth. In the last two years, we have charted and maintained a course that will position our Company to become the industry's premier competitor in the nation's energy corridor.

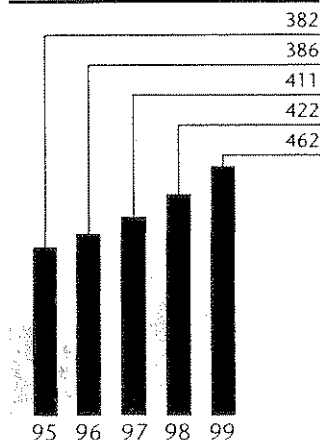
Transforming Our Company

It has become the general belief in our industry that scale and geography will be critical to profitability and success in this new competitive environment. Unfortunately, over the last several years, the prices being paid for small- to medium-sized distribution assets have skyrocketed. We actively reviewed a number of gas, electric and water properties in 1999, but concluded that those smaller transactions, at the prices being asked, would not be a good investment for our shareholders. Consequently, on June 7 we made an offer to acquire

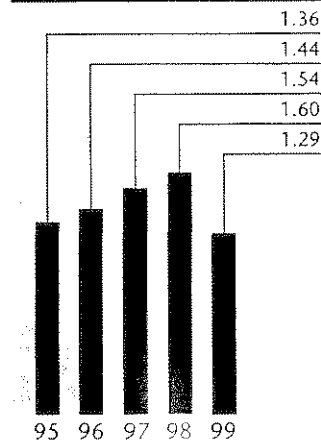
Total Revenues
in millions of dollars (\$)



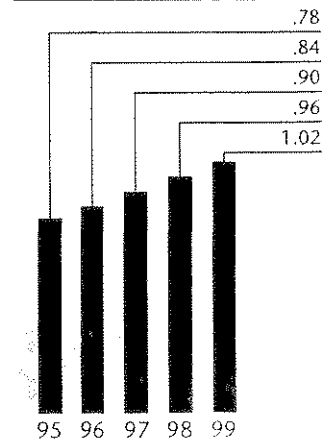
Operating Income
in millions of dollars (\$)



Basic Earnings Per Share
in dollars (\$)



Common Dividends Paid Per Share
in dollars (\$)



Columbia Energy Group, one of the nation's largest integrated energy companies with five gas distribution companies, two major interstate gas pipelines and Appalachian exploration and production assets.

I am pleased to report that on February 27, 2000, NiSource and Columbia reached a definitive merger agreement. The combination establishes a powerful platform for growth with access to 30 percent of the U.S. population and 40 percent of the nation's energy consumption.

NiSource/Columbia will be the largest gas company east of the Rocky Mountains and the second largest in the nation, serving more than 4.1 million customers located in nine states spanning the high-growth energy corridor. Columbia's gas distribution companies in Ohio, Kentucky, Pennsylvania, Maryland and Virginia link NiSource's gas properties in Indiana with those in Massachusetts, New Hampshire and Maine.

The combined company also will have 19,000 miles of gas pipelines, 700 billion cubic feet (bcf) of gas storage, 4,000 megawatts of power generation and 965 bcf of proven natural gas reserves.

The acquisition will fulfill our well-defined strategy of building a super-regional energy company with assets stretching from the Gulf of Mexico through the Midwest to the Northeast—a strategy we have discussed with you and have been implementing for the past two years.

This transaction offers the opportunity to create significant shareholder value with lower risk and higher returns. Although we anticipate that integration costs and other first-year expenses will reduce earnings by 10 to 15 cents per share in 2001, the combination is expected to add to earnings in 2002 and beyond. NiSource also intends to maintain its current dividend policy.



Changing the Company's name from NIPSCO Industries, Inc., to NiSource Inc. in 1999 better reflects the Company's growth and focus as a multi-state supplier of energy and water resources and related services.

NiSource has obtained a commitment from Credit Suisse First Boston and Barclays Bank Plc for a bank facility to finance the cash portion of the purchase price. Anticipated asset sales of more than \$1 billion will minimize equity needs and reduce leverage. As a result, we fully expect to maintain a strong financial profile with solid investment-grade credit ratings.

Although our effort to acquire Columbia began as a contested transaction, today Columbia's Board of Directors and senior management fully support this combination and are committed to helping achieve a rapid and seamless integration of the two companies. Therefore, we expect the transaction to close by the end of 2000, following approval by the shareholders of both companies and various regulatory commissions.

Our new company will be strategically positioned for the explosive growth projected for the competitive natural gas industry. A new American Gas Foundation study projects that gas consumption will increase 60 percent within the next 20 years. The economic and environmental benefits of natural gas will spawn new applications such as distributed power generation, which will fuel this growth.

NiSource/Columbia Value Chain

Upstream

- 19,000 Miles of Pipeline
- 700 Bcf of Gas Storage
- Marketing Services
- Gas Optionality
- Electric Optionality

Commodity Distribution

- Regulated Utilities
- Customer Growth

Downstream

- Energy Related Products
- Cogeneration
- Distributed Generation
- Commodity Conversion

NiSource's distribution value chain strategy focuses on logical extensions of the Company's core gas, electricity and water businesses.

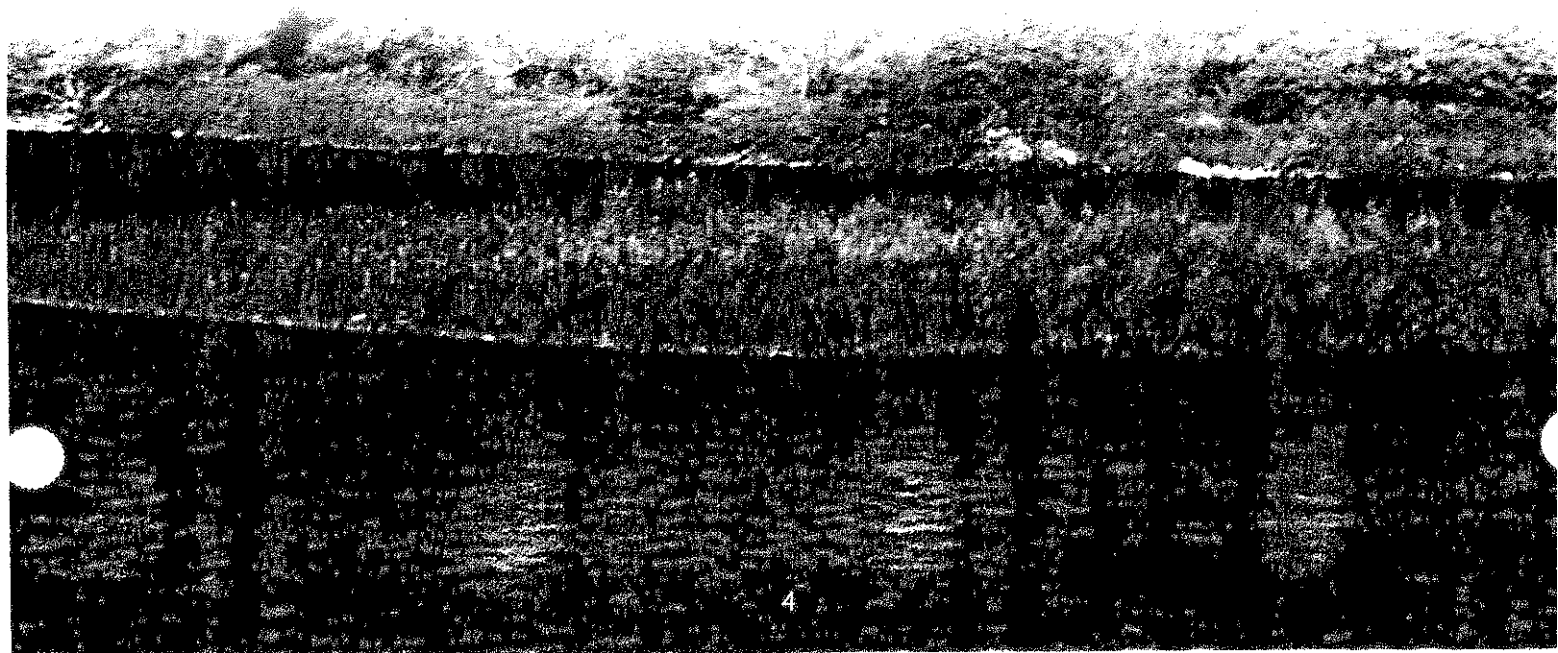
Natural gas is the fuel of the future. This is especially true within the energy-intensive geographic corridor in which the combined NiSource/Columbia will operate. Our strategic location and breadth of assets, including the pipelines, the nation's largest volume of gas storage and distribution companies in nine states, will give us the unique ability to boost the value of these assets beyond simply adding them together. We will leverage their value by arbitraging opportunities across fuel types, weather patterns, demand profiles, market anomalies and other conditions.

Building Value

Much like the salmon's life at sea, the environment

in which utility companies traditionally operated kept them relatively well financed and well protected. That model may have moderated risk, but it also limited opportunity and return. More recently, deregulation, the advent of competition and other developments have changed that environment forever. Service territories have given way to markets; stable returns to greater risk and changing opportunities.

Responding to that changing environment, some of our competitors have diversified into telecommunications, financial services, and non-asset-based power and gas trading. Others have focused on nuclear power or have sold off generation assets altogether. A number have looked for



opportunity in foreign waters.

Our strategy at NiSource is to build on what we do best—efficient, reliable, regional energy commodity distribution. We focus on building value for our customers—and our shareholders—by offering resource solutions around our commodity distribution channels.

You will recall that the Company changed its name from NIPSCO Industries, Inc., to NiSource Inc. in 1999. Our new name better conveys our strategic direction and more accurately reflects a geographic focus extending beyond our traditional

home base in Indiana. Our Midwest operations now link the Gulf Coast with New England. This geographic focus is key to our profitably delivering on the upstream and downstream opportunities afforded by our distribution value chain strategy.

Let me give you a few examples of the opportuni-



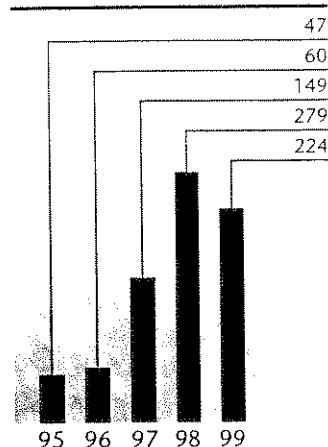
Northern Indiana Public Service Company meterman Carl Maglish installs a HomeGuard device, which protects appliances and electronic equipment from surges that can enter a home or business through electric, cable and telephone lines.

ties upstream and downstream from our commodity distribution businesses. Upstream opportunities enable us to reduce our risk profile and add value. They include gas and electric supply, gas transportation and storage, asset-based commodity trading, and utility services such as specialty construction and underground facility locating.

Most important, however, is our upstream ability to capitalize on the optionality of our assets. This optionality is the reason we made our offer for Columbia. The flexibility embedded in the utilization and operation of our combined assets will allow us to create a virtually unlimited number of high value energy packages. With distribution assets in nine states, pipeline operations in 16 states and the largest storage capacity in the U.S., the

Gas Marketing

millions of dekatherms



Life in the endless seas is marked by a plentiful supply of food and a "group" approach to avoiding threats by traveling together with others. Maturity and environmental cues signal the time to leave the security of the sea. There will be many miles and countless days spent reaching the right river. Then a number of estuaries will be tested before fixing on the right direction.



A Northern Indiana Public Service Company crew installs a steel utility pole as part of an initiative to compare performance as well as installation and maintenance costs of steel poles with traditional wooden poles.

NiSource/Columbia combination provides the greatest optionality opportunities in the industry.

Our downstream activities will focus on services and solutions which meet our customers' energy and service needs. These include heating and cooling equipment leasing, installation and maintenance; water purification; and—most importantly—onsite, gas-fired back-up and distributed electric power generation.

We intend to keep our focus and provide greater

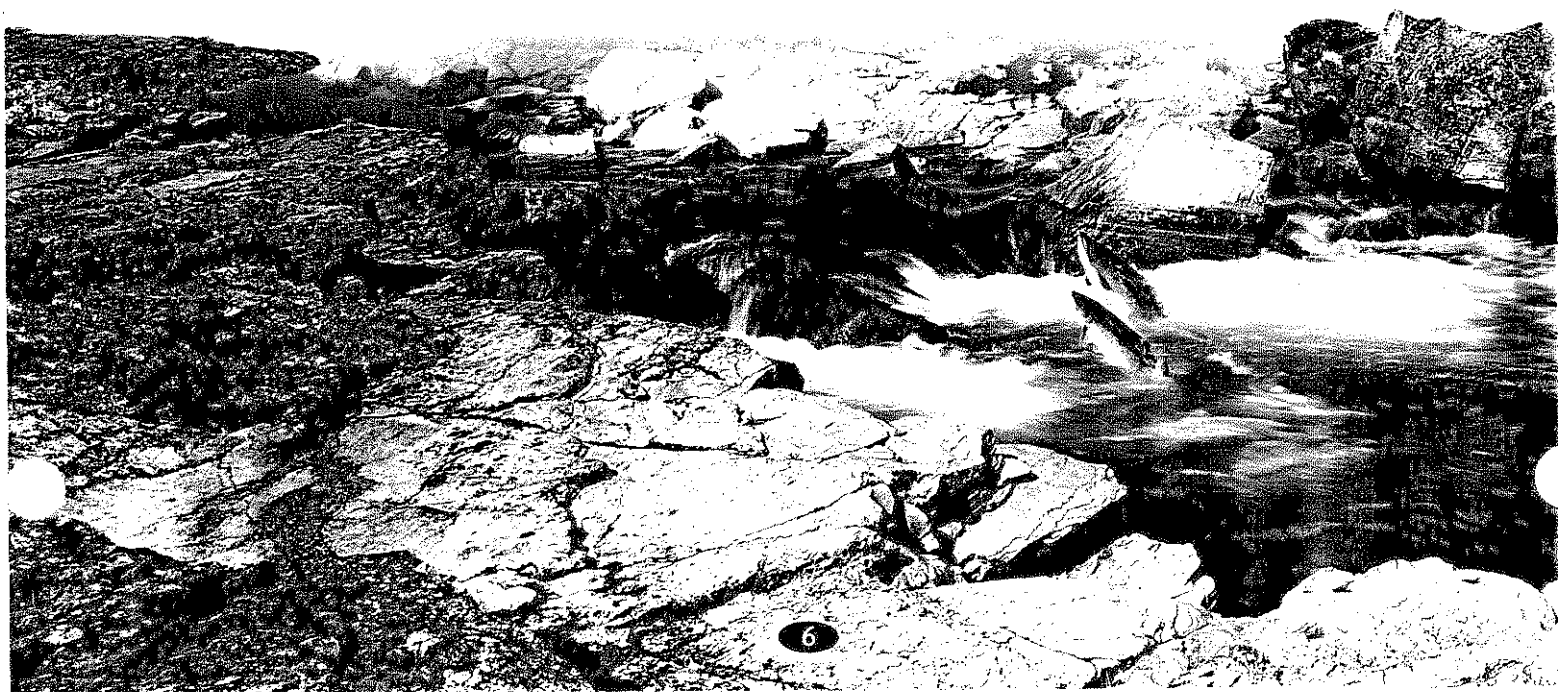
value to each customer. In doing so, we will combine the strong cash flow and limited risk profile of our regulated assets with the ability to deliver the optionality value embedded in those assets.

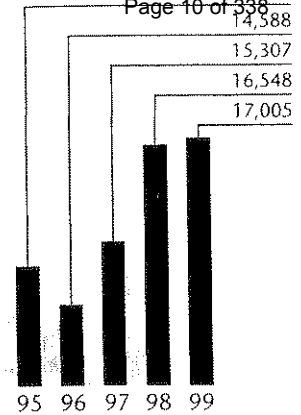
Challenges and Progress

Although it is exciting to talk about the opportunities for the future, I also want to give you an update on current operations and performance. The Company's earnings per share declined 19 percent in 1999. We suffered through unseasonably warm winter and fall weather. We struggled

with less-than-ideal seasonal timing in closing our acquisitions of Bay State Gas Company and TPC Corporation. We addressed the need to sell or close a number of operations and facilities that do not fit our strategic direction. Finally, we watched energy and utility stocks get battered by the market as investors rushed to the "dot-com" startups.

Compared to our 10-year track record of outperforming the Standard & Poor's 500, our performance in 1999 was clearly below the standard we





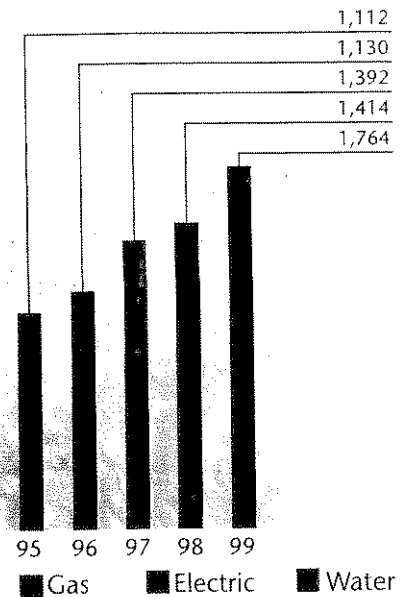
set for ourselves and what you have come to expect.

Our decline in earnings was largely due to the timing of our Bay State Gas and TPC transactions and milder than normal winter and fall weather. The merger with Massachusetts-based Bay State Gas closed February 12. The acquisition of Houston-based TPC, a major unregulated energy portfolio manager and a leading developer of high-deliverability natural gas storage, was completed April 1.

As gas businesses, Bay State Gas and what we now call the EnergyUSA Commodities Group generate the bulk of their revenues during the winter heating season. In both cases, the timing of the closing of the transactions caused us to lose 40 to 60 percent of earnings while incurring most of the first year's expenses. At the end of the year, milder-than-normal weather dampened demand for these two subsidiaries as well as NiSource's other natural gas businesses. The number of heating-degree days during the year remained below normal.

During the year we decided to exit a number of non-core businesses and facilities that are no longer consistent with our strategic direction. We also saw adverse economic conditions impact other equity

Total Utility Customers
at year-end, in thousands

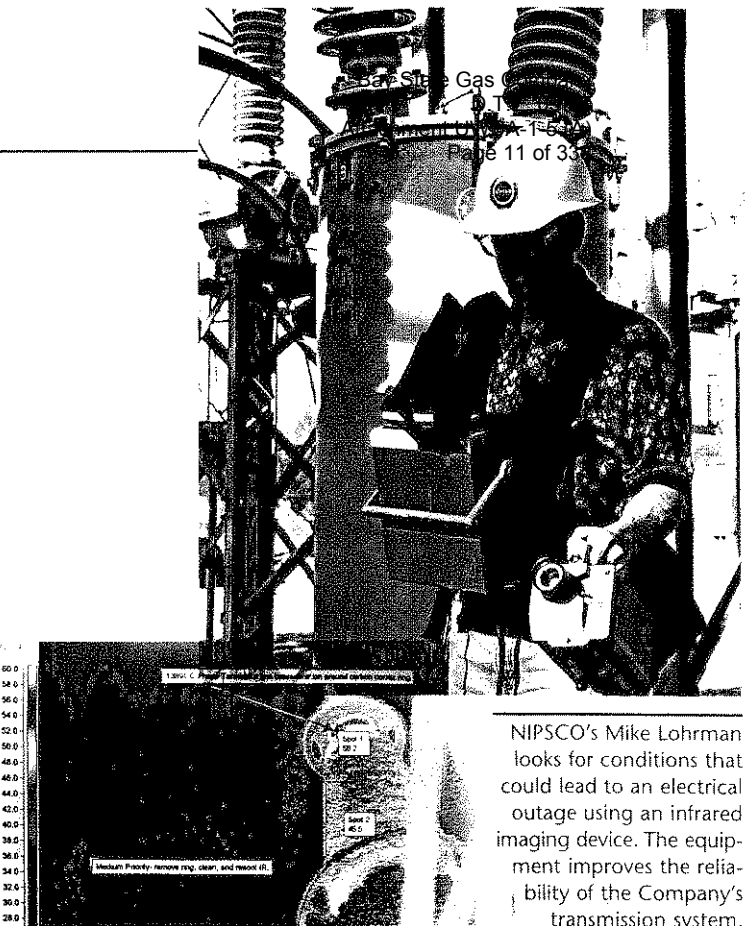


Along the way, there are tremendous currents, hidden obstacles, and predators to be overcome. Too little water and the way is impassable; too much and it is all-consuming. Occasional stops must be made in calmer waters to regain strength before continuing. But there lurk the predators, waiting for their chance. Only a keen instinct for danger allows them to drive safely toward their destination, despite the threats.

investments, the most significant of which was in oil and gas development. In the aggregate these had a negative impact on net income of \$21.7 million or 17 cents per share.

Otherwise, our operations performed well. At Northern Indiana Public Service Company (NIPSCO), electric generation reached an all-time high at 17,005 gigawatt hours—3 percent above the 1998 record—giving NIPSCO more power to sell on the bulk market and enabling the Company to purchase less power during peak periods. NIPSCO also reduced its cost of generation by 3.5 percent and its fuel cost by 4.7 percent. NIPSCO's generation continues to be a viable player in the growing Midwest markets for electricity.

NIPSCO customer growth continued during 1999, as did the number of customers selecting their natural gas supplier as part of the NIPSCO Choice program. NIPSCO expanded Choice from a pilot program to its entire customer base last year, resulting in nearly a 200 percent increase in participation.



NIPSCO continued its aggressive program to continually upgrade and maintain its electric transmission and distribution systems. This program is aimed at increasing customer satisfaction by enhancing reliability. The program covers all facets of the system: identifying and improving circuit performance, converting the system to a higher



voltage level, replacing aging underground cable, improving substation grounding and replacing and reinforcing poles.

A new outage-tracking program will be placed in service in 2000. The system will capture information about outages and analyze the extent of damage and the frequency and duration of service interruption. This information will be used to better inform customers on the extent and duration of outages and to identify future capital projects that will further improve reliability.

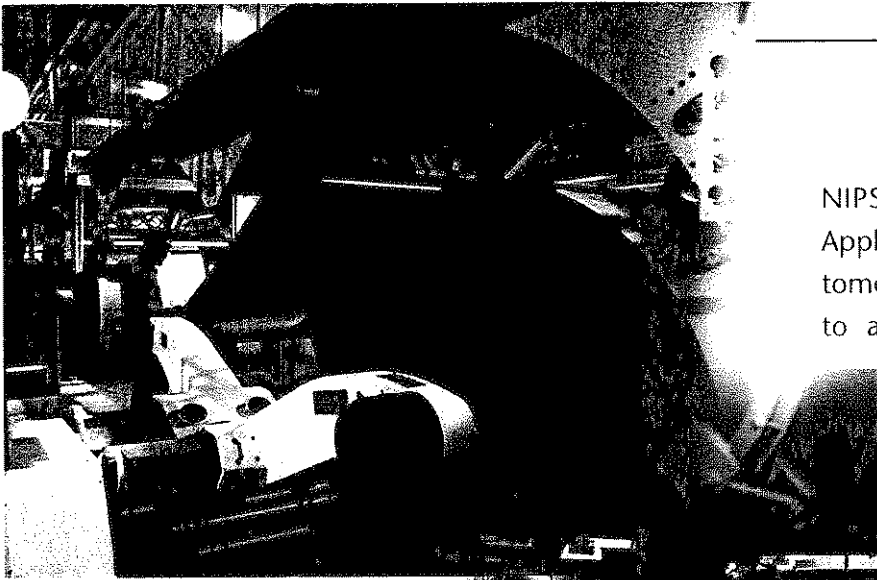
The Indianapolis Water Company (IWC), our primary water distribution business, added a record 22,000 new customers in 1999. Operations were broadened with the addition of the Lawrence Municipal Water Utility and the assets of Eastern Morgan County Rural Water Company, Inc. During the year, IWC pumped and delivered a record volume of water to its customers.

We expanded our presence in the utility services segment through Miller Pipeline Corporation, our pipeline construction company. Specializing in customer service through the planning, design and

application of innovative pipeline rehabilitation and replacement processes, Miller operates in several multi-billion-dollar markets, including natural gas and water distribution as well as wastewater systems. As utilities continue to outsource underground construction projects, we expect that Miller will continue to capture a growing portion of this profitable business.

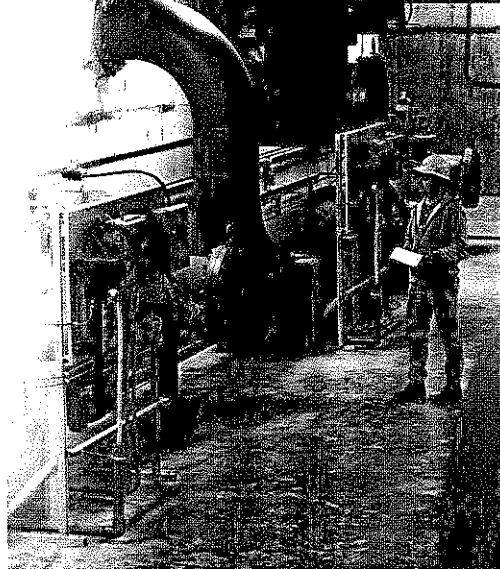
NiSource continued to expand its presence in the underground utility-locating business by acquiring a 50 percent share of Underground Technology, Inc. (UTI), a California-based operation with the same high-quality reputation as our SM&P Utility Resources, Inc. subsidiary. The combined services of UTI and SM&P make us the market leader in the underground-locating business in volume and frequency of locates. Our business continues to grow as customers ask us to follow them into new markets to meet their growing needs. For example, SBC, the nation's largest telecommunications company, recently named SM&P its supplier of choice with a five-year contract.

EnergyUSA, our nonregulated subsidiary, and



Gypsum wallboard is manufactured from a by-product of the electric-generating process at Georgia-Pacific Corp.'s new facility adjacent to Northern Indiana Public Service Company's R. M. Schahfer Generating Station (above). The wallboard is made from the by-product of scrubbing sulfur dioxide from coal burned at Schahfer.

To increase water safety, Indianapolis Water Company (IWC) is in the process of completing a conversion from chlorine gas to bleach. The South Well Field, shown here, was constructed as IWC's first well field to use bleach.



NIPSCO have teamed up to introduce Appliance Care to NIPSCO's residential customers. The program offers customers a way to avoid expensive appliance repairs for a monthly fee that is added to the customer's utility bill. EnergyUSA expects to expand Appliance Care to cover air conditioning units just in time for the 2000 cooling season.

NIPSCO and EnergyUSA also initiated Hot2Lease, offering NIPSCO customers the option to purchase or lease a new water heater for a monthly fee. Another new service, providing whole-house surge protection, is also being tested in NIPSCO markets.

The Internet continues to revolutionize the way we do business. NIPSCO customers are now able to check the Company's gas and electric rates, receive their bills and pay them online. Under the NIPSCO Choice program, qualified suppliers may now

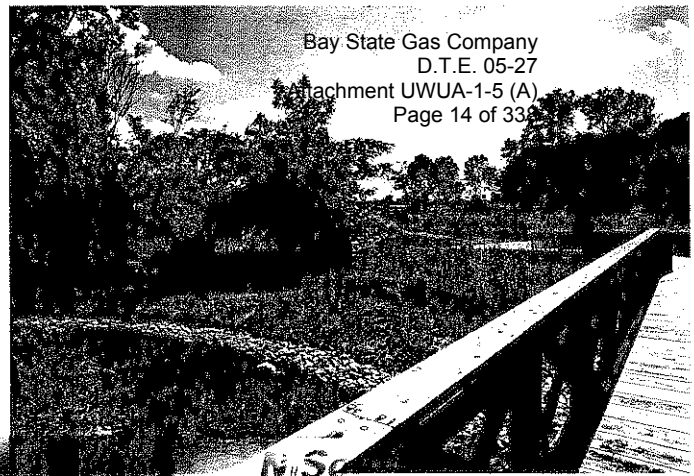


Lake Erie Land Company has won acclaim for incorporating environmental sustainability into the design of Coffee Creek Center, a 640-acre residential and commercial project in Chesterton, Indiana.

use the Internet to enroll customers. NIPSCO and Bay State commercial and industrial customers can effectively manage gas transportation and load through our Energy Access System Online. EnergyUSA and NIPSCO also offer products and services through their Web sites.

As I noted earlier, our acquisition of Bay State Gas was completed on February 12, 1999. Bay State and its subsidiary, Northern Utilities, Inc., give us a strong presence in the Northeast with more than 320,000 customers in Massachusetts, New Hampshire and Maine.

The New England market has excellent growth potential, as barely half of the region's homes and businesses heat with natural gas, compared to 95 percent in the Midwest. This has enabled Bay State and Northern Utilities to significantly increase customers year after year, with 7,000 customers added in 1999. The recent run-up in heating oil prices in this region offers a great opportunity to convert customers to natural gas. Over the last decade, New England increased its use of nat-



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Richard Elden (left) of the North American Waterfowl Management Plan Committee presents Gary Neale with the National Great Blue Heron Award recognizing the leadership role NiSource has played in wetland conservation.

ural gas by about four times the national average.

Northern Utilities contributed to this growth with its pipeline extension through Kittery and Eliot, Maine—one of the largest system expansions in recent years. One of the primary reasons for the



expansion was to provide natural gas service to the Portsmouth Naval Shipyard, which was seeking to diversify its energy portfolio, switch to a cleaner fuel and reduce overall energy costs. A military housing development was also converted from propane to natural gas as part of the project.

Bay State and the Massachusetts Municipal Wholesale Electric Company (MMWEC) reached an agreement for Bay State to transport up to 13 million cubic feet per year of natural gas to MMWEC's

Stony Brook power plant, which provides electricity to 25 Massachusetts municipal utilities. Increasing the use of natural gas will enable the plant to produce less expensive power and reduce air emissions.

During the year, we also combined the gas supply operations of Bay State with that of NiSource to better capitalize on savings in the

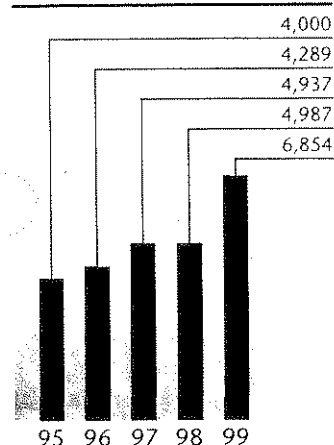
marketplace and eliminate redundancies.

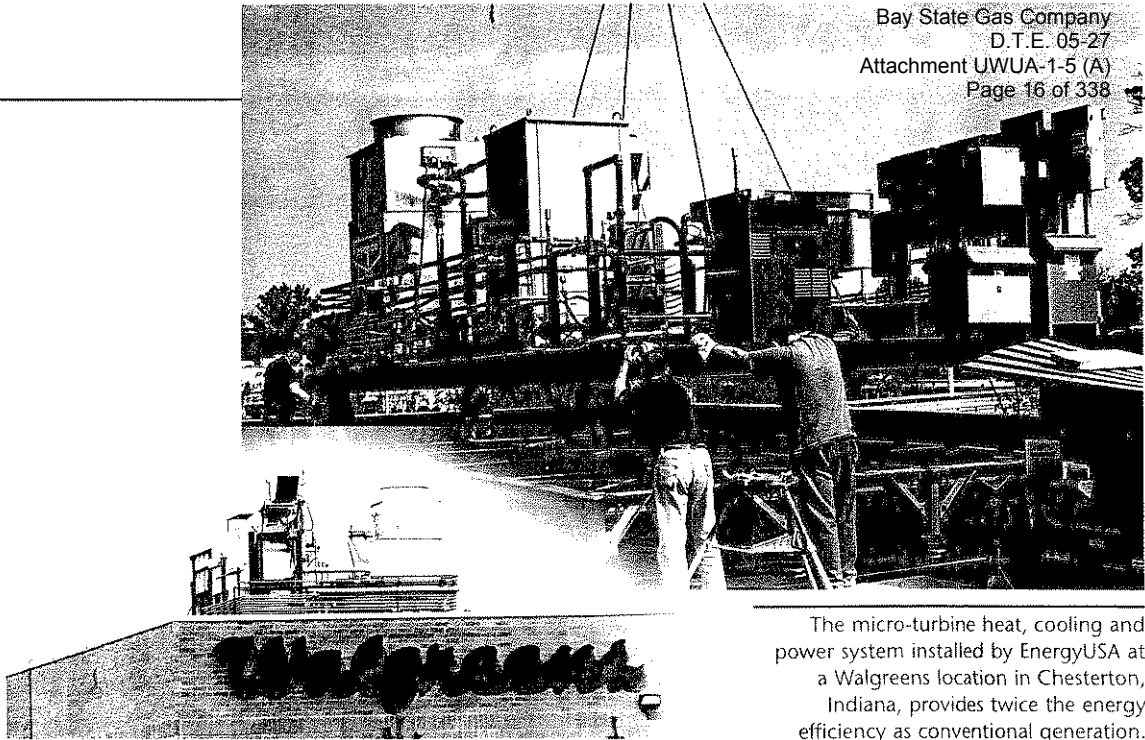
The acquisition of TPC provides NiSource with TPC's strong expertise in gas-asset management and customer partnering. NiSource also increased its share of Market Hub Partners, L.P. (MHP) through the transaction. NiSource now indirectly owns 100 percent of MHP, the largest high-deliverability storage developer/operator in North America. MHP holds a marketing and customer-service advantage in being connected to 11 intra- and interstate pipelines that serve the Midwest and eastern United States.

Operational efficiency improvements continue throughout the Company with the advent of NiSource's Shared Services, which began in 1999 and will be completed at the end of 2000. We have identified an estimated \$30 million in savings at NiSource alone, as a result of reorganizing and integrating the Company's administrative services. This approach to Shared Services will be one of the primary vehicles for synergy savings in the NiSource/Columbia integration. However, the real long-term value of Shared Services lies in improving

Total Assets

in millions of dollars (\$)





The micro-turbine heat, cooling and power system installed by EnergyUSA at a Walgreens location in Chesterton, Indiana, provides twice the energy efficiency as conventional generation.

quality, efficiency and consistency, and increasing coordination within our growing company.

Energy for the Future

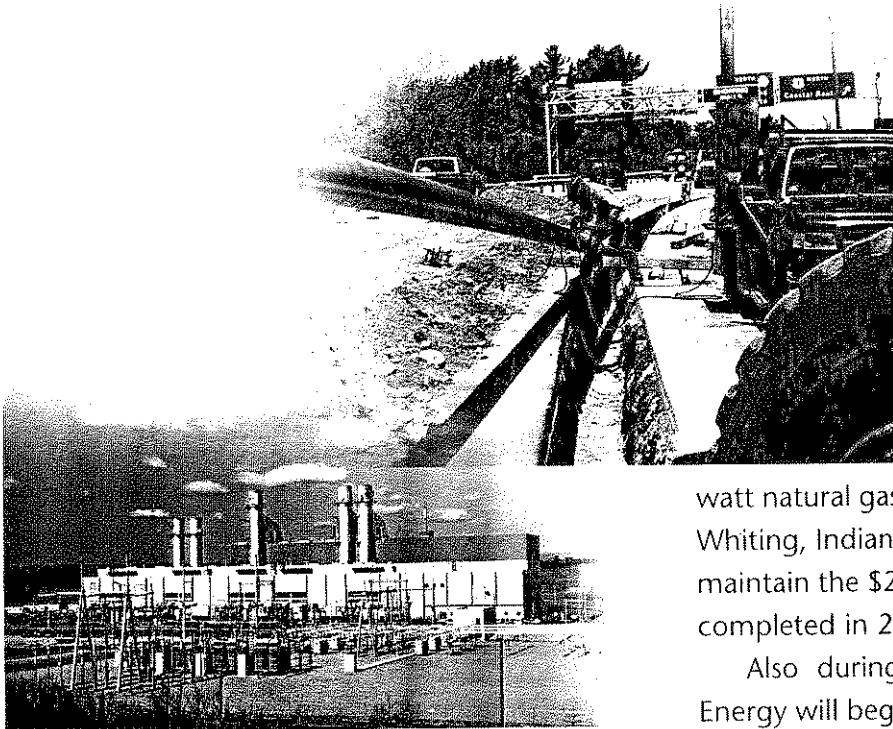
Our goal at NiSource is to create a stronger strain of energy company, one that can survive the transition, compete and win. The way we see it, the only way to truly deliver value in tomorrow's energy world is for the old ways to die, giving birth to new ideas. Successful companies must shift from

worn, tired perspectives to a spirit characterized by creativity, risk analysis and enthusiasm.

NiSource's focus on new forms of electric generation systems clearly illustrates this emphasis. We are developing energy products that will change the way electricity is generated and delivered to the factory, to the office, to the store and to the home.

For the last several years, our Primary Energy subsidiary has been helping large industrial customers use waste gases and other by-products

Those that arrive have defied the odds of survival. They may be frayed or wounded, but their energy is still focused on producing the next generation and preparing an environment in which they can thrive.

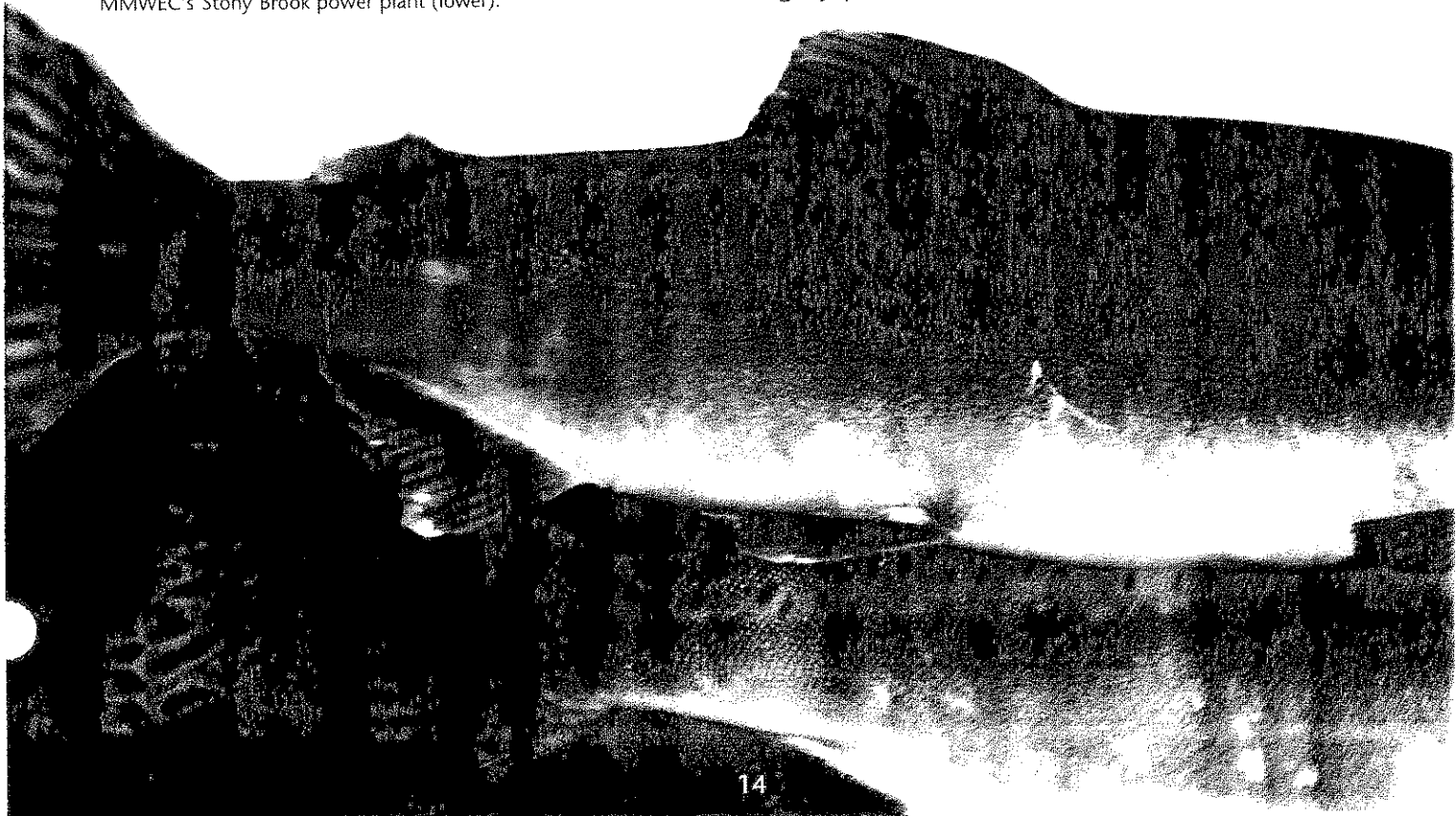


Northern Utilities completed a five-mile steel natural gas pipeline extension that runs through Kittery and Eliot, Maine (upper). The Massachusetts Municipal Wholesale Electric Company (MMWEC) and Bay State Gas announced an agreement for Bay State to transport natural gas to MMWEC's Stony Brook power plant (lower).

to become more energy self-efficient. Primary Energy has set a new standard of service in delivering cost-effective and environmentally supportive on-site energy solutions.

Primary Energy finalized agreements in 1999 to develop, engineer and construct two major cogeneration facilities in northern Indiana. Construction will begin in the first quarter of 2000 on a 525-megawatt natural gas-fired facility at BP Amoco's refinery in Whiting, Indiana. Primary Energy will also operate and maintain the \$250 million facility when construction is completed in 2001.

Also during the first quarter of 2000, Primary Energy will begin construction of a 50-megawatt facility at the LTV Steel Company's manufacturing complex in East Chicago, Indiana. This "inside-the-fence" power project will enable LTV to generate electricity using by-product fuels from blast furnace operations.





Primary Energy
A NISource Company

Industrial Projects

The \$60 million project will be completed in late 2001. LTV will be responsible for the facility's operation and maintenance.

These projects enable us to expand clean power technologies without building significant new infrastructure for our regulated utilities. Moreover, the existing generating capacity freed up by the two projects will be used to supply competitively priced electricity for NIPSCO's growing customer base in northern Indiana and the expanding wholesale market in the Midwest.

With its seventh project under way, Primary Energy has found that its customers don't want to build plants; they want to build markets. They don't want to generate power; they want to manufacture products. Increasing pressures on cost and performance from global and domestic competition are forcing heavy industrial companies to focus more on their core competencies, optimizing their assets and outsourcing non-core functions to experts. These trends offer Primary Energy numerous

1993 Harbor Coal Co.

Joint-venture partnership with Ispat Inland Inc. in East Chicago, Indiana, to process coal for Inland's blast furnaces.

1996 North Lake Energy Corp.

(75 Megawatts)

Turbine-generator facility providing electricity to Ispat Inland in East Chicago, Indiana.

1997 Lakeside Energy Corp.

(161 Megawatts)

Turbine-generator facility providing electricity and process steam to U.S. Steel Gary Works in Gary, Indiana.

Portside Energy Corp.

(63 Megawatts)

Combined-cycle facility supplying steam, hot water and electricity to National Steel Corp.'s Midwest Steel Division in Portage, Indiana.

1998 Cokenergy, Inc.

(95 Megawatts)

Steam turbine-generator facility at Ispat Inland in East Chicago, Indiana, that will remove sulfur and particulate from the coke battery.

2001 Whiting Clean Energy, Inc.

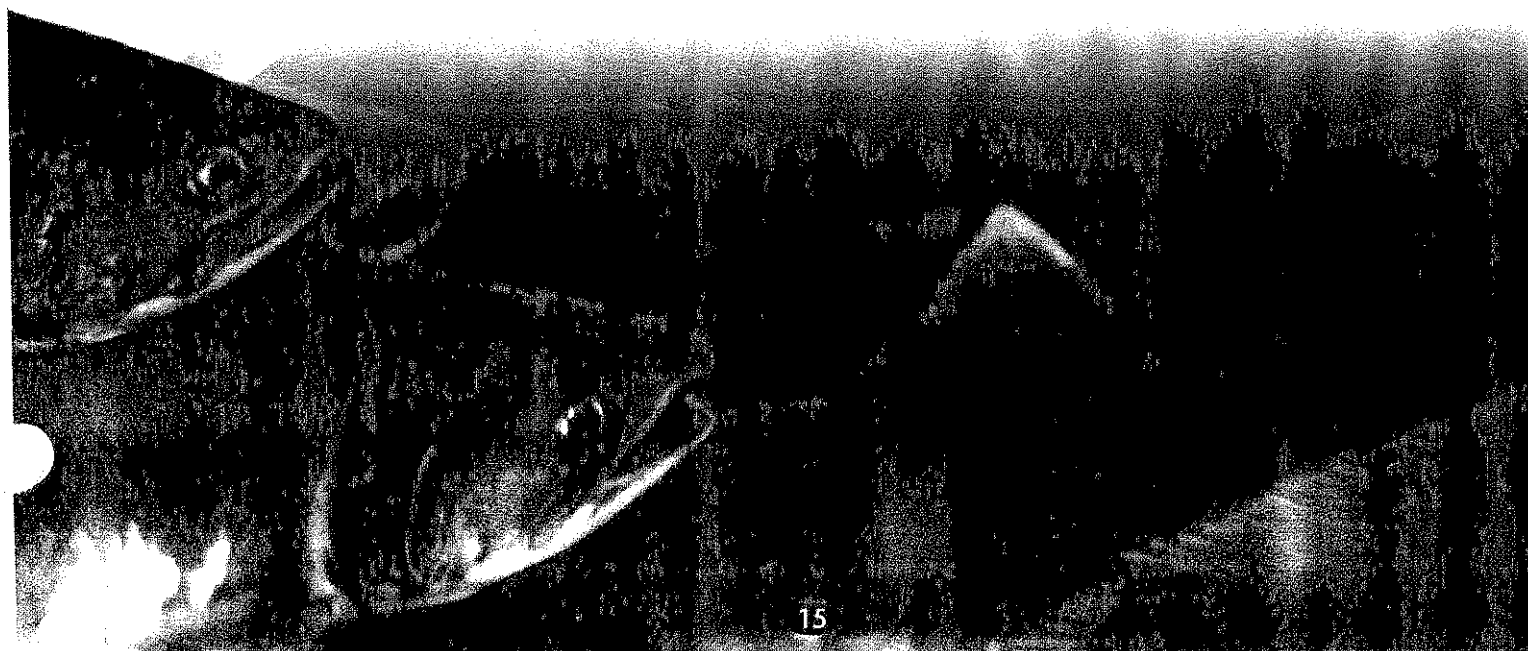
(525 Megawatts)

Combined cycle power plant at BP Amoco Refinery in Whiting, Indiana.

Ironside Energy

(50 Megawatts)

Steam turbine-generator facility that will generate steam and electricity at LTV Steel Co.'s East Chicago, Indiana, plant.



prospects in the refining, chemicals, metals, mining, pharmaceutical, food and beverage, and pulp and paper industries. We believe that Primary Energy—with its double-digit growth potential—provides a strong cornerstone for our overall generation business strategy.

Our next step is to build on the lessons we learned from Primary Energy's industrial projects. We are now developing revolutionary distributed generation technology for the commercial and residential markets.

Last summer, EnergyUSA installed the nation's first commercially successful energy micro-generation system providing electricity and thermal energy for heating, air conditioning and hot water. The natural gas-fired unit, in operation 24 hours a day, at a Walgreens store in Chesterton, Indiana, reduces overall energy costs for the customer, and improves power quality and reliability. It has operated continuously for more than nine months.

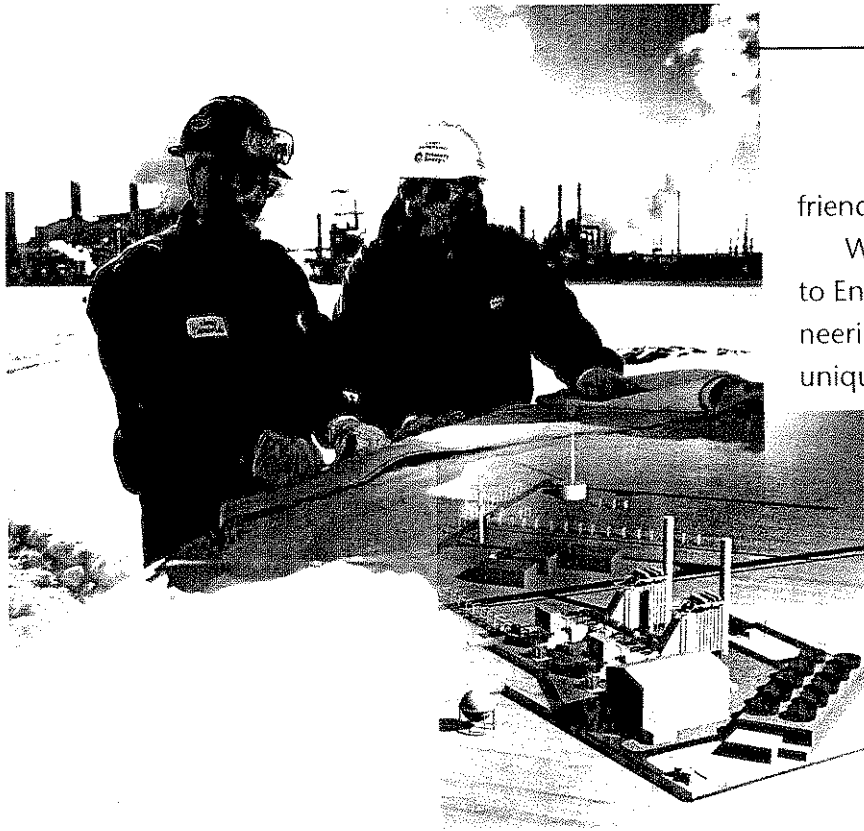
We are also investing time and capital in the development of a fuel cell-based energy system that can provide electricity and thermal energy for

heating, air conditioning and hot water in homes and small businesses. This total-energy package is being developed by MOSAIC Energy, LLC, a partnership between EnergyUSA and the Institute for Gas Technology (IGT).

Roughly the size of a home furnace, the unit combines MOSAIC's fuel-processing technology with a patented fuel-cell stack design. The fuel processor changes natural gas or propane into hydrogen and sends it to the fuel cell, which converts it into electricity. I believe our partnership is the patented leader in cost-effective proton-exchange membrane and plate design and efficient hydrogen reformation, both critical steps in putting fuel cell technology over the hurdle to become a commercial success.

Field units will be installed later this year to demonstrate the system's ability to accommodate a broad range of residential and commercial applications. The system will offer customers greater power reliability and a true energy choice. It will also reduce the total energy bill for a home or business by about 15 percent. The design is environmentally





In the first quarter of 2000, Primary Energy will begin construction on a 525-megawatt natural gas-fired facility at BP Amoco's refinery in Whiting, Indiana. Here Primary Energy's Larry Androskaut works with a BP Amoco representative on site preparation and plant schematics (shown at right).

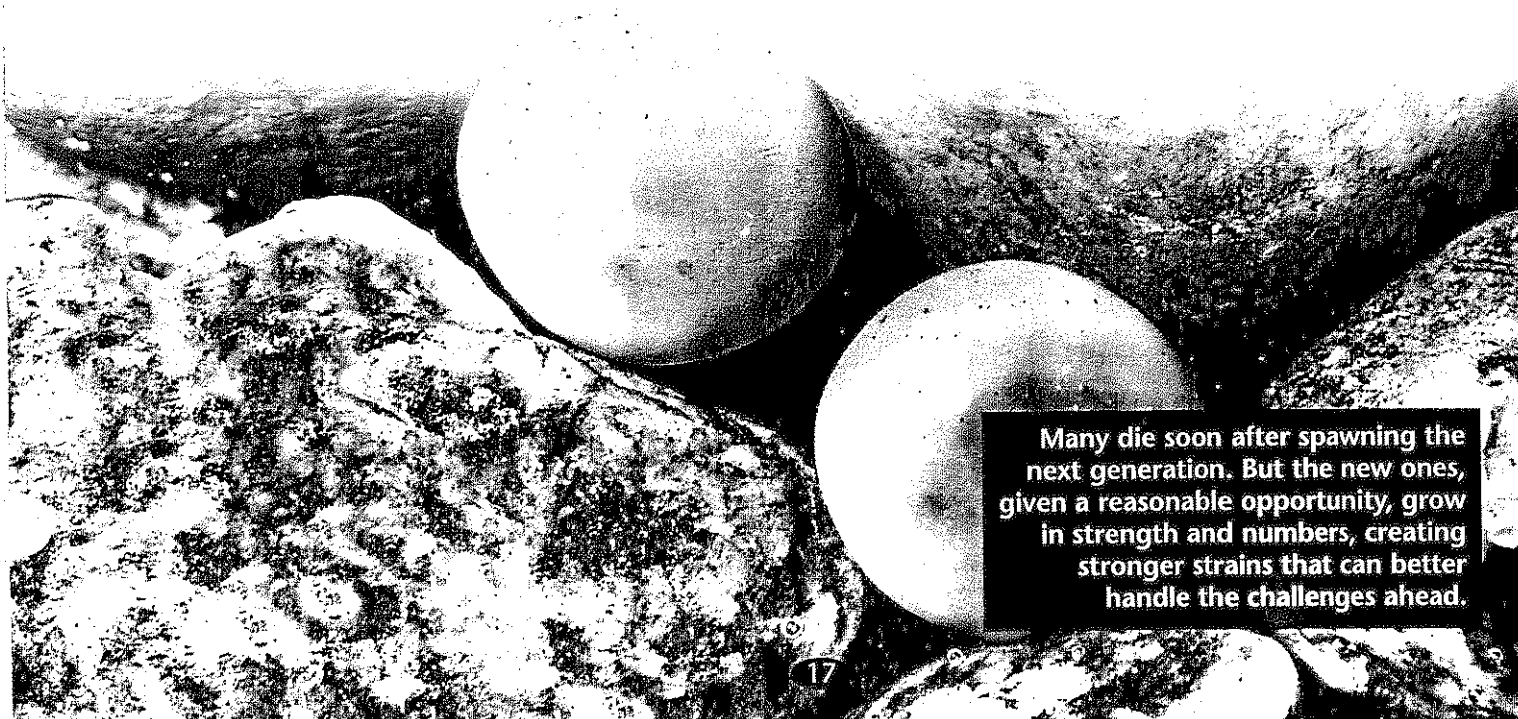
friendly, safe, compact and quiet.

When we add the benefits of the system to EnergyUSA's extensive marketing and engineering network, we believe that NiSource is uniquely positioned to succeed in developing and servicing this new market. In fact, we're so optimistic about the future of our fuel-cell venture that we are doubling our investment this year in MOSAIC Energy.

We expect both the fuel cell and micro-generation product lines to become key components of the nation's future energy supply as economic, energy and environmental policies converge to encourage investment in technology that is cleaner and more efficient and not dependent on large-scale transmission systems.

Protecting the Environment

At NiSource, we believe that environmental stewardship enhances value. As such, our mission to create value for our customers while reducing any



Many die soon after spawning the next generation. But the new ones, given a reasonable opportunity, grow in strength and numbers, creating stronger strains that can better handle the challenges ahead.

adverse impact on the environment is not only the right thing to do, but it also makes good business sense.

As an example, NIPSCO sells all of the by-product gypsum from scrubbers at its R. M. Schahfer Generating Station to Georgia-Pacific Corp., which uses the gypsum to manufacture wallboard. The gypsum is sent directly from the NIPSCO station to an adjacent \$65 million plant that Georgia-Pacific built in 1999. This waste, formerly land-filled at considerable cost, has turned into a revenue source.

Last year was the first time that the nation's electric utilities were required by the U.S. Environmental Protection Agency to report their chemical releases to the environment. Although NIPSCO burned 35 percent more coal in 1998 (the reporting year) than 1990, the utility reduced emissions of diluted gas chemicals and trace metals by 31 percent.

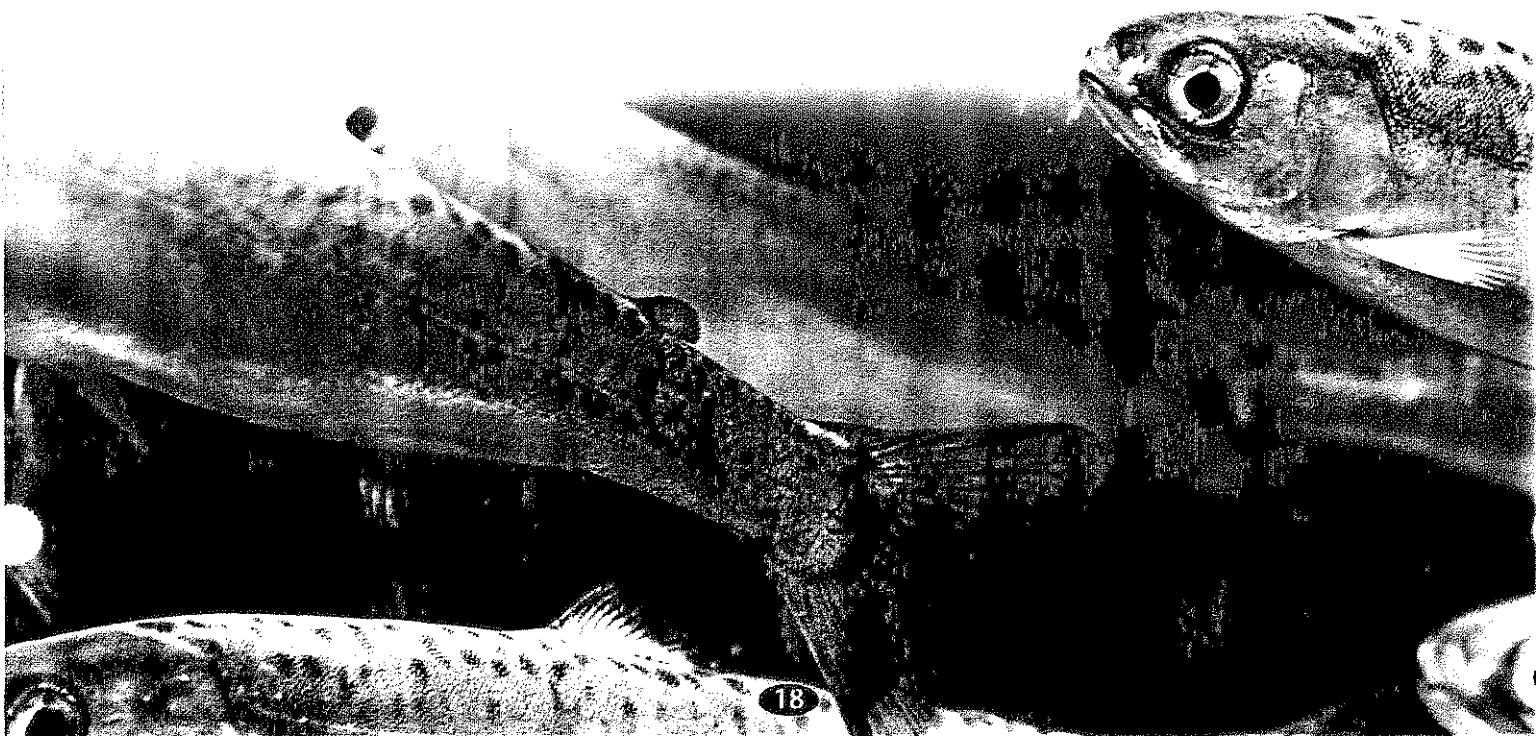
We also take great pride in the fact that two more NiSource businesses have joined NIPSCO, the first ISO-certified utility in the U.S., in becoming ISO 14001 certified. Northern Indiana Fuel and Light

Company, Inc. and Primary Energy Inc.'s Portside Energy Corporation subsidiary have each achieved the international standard for implementing an effective environmental management system.

Finally, there are those salmon I referred to at the opening of this letter, swimming their way up Coffee Creek. NiSource's Lake Erie Land Company is restoring the native prairie and watershed there as a part of an innovative development earning national acclaim for combining traditional neighborhood design, energy efficiency and environmental sustainability. Only two years ago, that creek was home to little more than junk cars and a diminished fish population. I can't express how gratified I was to witness the salmon's upstream struggle when I visited Coffee Creek one day last October.

Our Commitment

Just as NiSource played a role in transforming Coffee Creek, we will continue to transform our business. Throughout this year, I believe we kept our focus. We have positioned NiSource to return to our traditional earnings growth pattern and, if



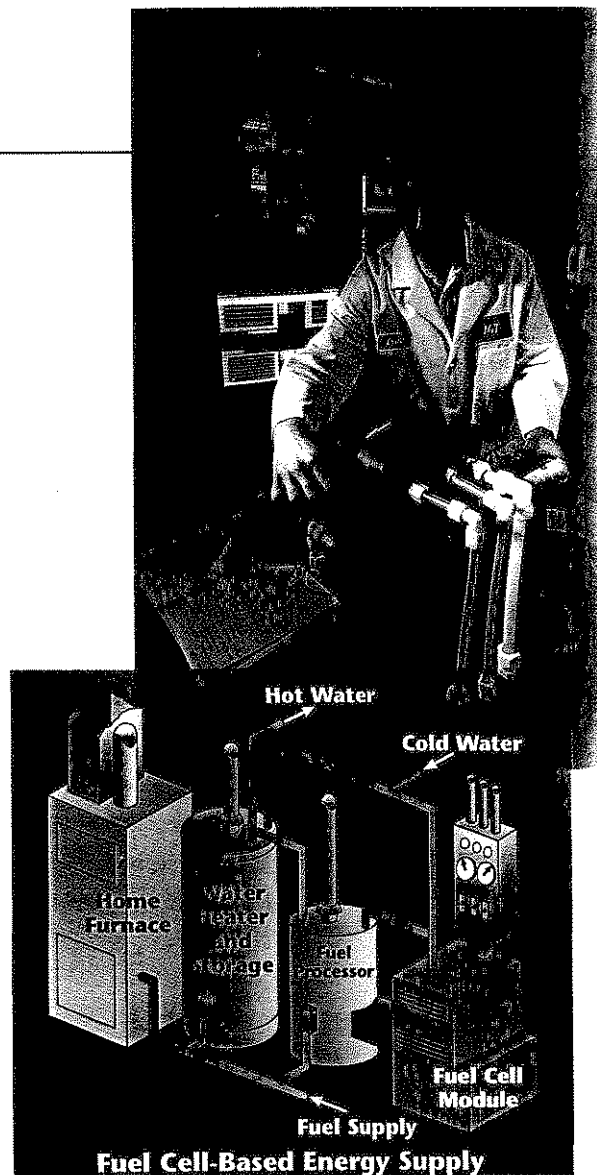
market conditions allow, to the stock performance you have come to expect. We are convinced that we are headed in the right direction, we have adopted the right approach, we are connecting with the right partners and we are developing the right ideas.

These are the principles by which we run our business. Our goal is to return NiSource to the top of the industry in shareholder value. Your Board of Directors and management clearly are disappointed with the current price of the Company's stock. We believe that at these price levels, NiSource stock is significantly undervalued. This Company and all of its employees are committed to the goal of increasing value. Like those salmon at Coffee Creek, we remain determined in the face of numerous obstacles and unrelenting in our focus on the destination — *creating the next generation.*

On behalf of all of us at NiSource, I want to thank you, our shareholders, for your continued support and confidence.

Gary L. Neale

Gary L. Neale
Chairman, President and
Chief Executive Officer
March 14, 2000



MOSAIC Energy, a partnership of EnergyUSA and the Institute of Gas Technology (IGT), is developing a fuel cell-based integrated energy system that will provide greater power reliability and choice to residential and small commercial markets. Here an IGT engineer works with the system that will reduce residential or commercial energy bills by an estimated 15 percent.

Our Board Of Directors

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Mr. Gary L. Neale
Chairman, President and
Chief Executive Officer
NiSource Inc.
Merrillville, Indiana

Dr. Steven C. Beering
President
Purdue University
West Lafayette, Indiana

Mr. Arthur J. Decio
Chairman of the Board and
Chief Executive Officer
Skyline Corporation
Elkhart, Indiana

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ALLTEL Corporation
Little Rock, Arkansas

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University of Notre Dame
College of Business
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Notre Dame, Indiana

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Chairman
Bay State Gas Company
Westborough,
Massachusetts



The 1999 Financials

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FINANCIAL PERFORMANCE HIGHLIGHTS

	1999	1998	% Increase (Decrease)
	(In millions, except per share data)		
Total Assets	\$6,835	\$4,987	37.1%
Operating Revenues	\$3,145	\$2,932	7.3%
Cost of Sales	\$1,651	\$1,692	(2.4%)
Operating Margin	\$1,494	\$1,240	20.5%
Operating Expenses	\$1,032	\$ 819	26.0%
Operating Income	\$ 462	\$ 422	9.5%
Net Income	\$ 160	\$ 194	(17.5%)
Basic earnings per average common share	\$ 1.29	\$ 1.60	(19.4%)
Diluted earnings per average common share	\$ 1.27	\$ 1.59	(20.1%)
Dividends declared per common share	\$1.035	\$0.975	6.2%
Average common shares outstanding — basic (000's)	124,343	120,778	3.0%
Year-end common shares outstanding (000's)	124,139	117,531	5.6%

REPORT OF MANAGEMENT ON RESPONSIBILITY FOR FINANCIAL REPORTING

Bay State Gas Company

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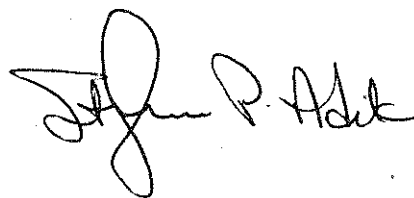
To the shareholders of NiSource Inc.:

The management of NiSource Inc. (NiSource) has the responsibility for preparing the accompanying consolidated financial statements and for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles. The consolidated financial statements include amounts that are based on management's best estimates and judgments. Management also prepared the other information in the annual report and is responsible for its accuracy and consistency with the consolidated financial statements.

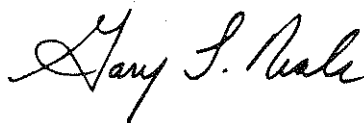
To meet its responsibilities for the reliability of the consolidated financial statements and related financial data, NiSource's management has established and maintains a system of internal control that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of errors and irregularities on a timely basis. The system of internal control provides for appropriate division of responsibility and is documented by written policies and procedures that are communicated to employees with significant roles in the financial reporting process and are updated as necessary. Management routinely monitors the system of internal control for compliance. NiSource also maintains a strong internal auditing

program that independently assesses the effectiveness of the internal controls and recommends possible improvements thereto. Management believes that NiSource's system of internal control is adequate to accomplish the objectives discussed above.

February 28, 2000



Stephen P. Adik
Senior Executive Vice President and
Chief Financial Officer and Treasurer



Gary L. Neale
Chairman, President and
Chief Executive Officer

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of NiSource Inc.:

We have audited the accompanying consolidated balance sheet and consolidated statements of capitalization and long-term debt of NiSource Inc. (an Indiana corporation) and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, common shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These consolidated financial statements are the responsibility of NiSource's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NiSource Inc. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Chicago, Illinois
February 18, 2000

Arthur Andersen LLP

(Except with respect to the matter discussed in the Note "Announcement of Merger Agreement with Columbia Energy Group," as to which the date is February 28, 2000.)

HOLDING COMPANY

NiSource Inc. (NiSource), formerly NIPSCO Industries, Inc., is an energy and utility-based holding company headquartered in Merrillville, Indiana, that provides natural gas, electricity and water to the public for residential, commercial and industrial uses. NiSource was organized as an Indiana holding company in 1987 under the name "NIPSCO Industries, Inc.," and changed its name to NiSource Inc. on April 14, 1999, to reflect its new direction as a multi-state supplier of energy and water resources and related services.

NiSource's gas business is comprised primarily of regulated gas utilities that operate throughout northern Indiana and New England. In addition, NiSource expanded its gas marketing, trading and storage operations with the April 1999 acquisition of TPC Corporation, now renamed EnergyUSA-TPC Corp. (TPC). NiSource's electric business is comprised of a regulated electric utility that operates in northern Indiana. The electric business also includes wholesale sales and power trading activi-

ties. NiSource's regulated gas and electric subsidiaries are collectively referred to as the "Energy Utilities." NiSource's regulated water subsidiaries are collectively called the "Water Utilities." Collectively the Energy and Water Utilities are referred to as the "Utilities."

Non-regulated energy and utility-related products and services are provided through the "Products and Services" subsidiaries. Products and Services subsidiaries perform energy-related services and offer products in connection with these services, which include pipeline construction, repair and maintenance of underground gas pipelines and locating and marking utility lines.

In addition to the Utilities and the Products and Services subsidiaries, NiSource has a wholly-owned subsidiary, NiSource Capital Markets, Inc. (Capital Markets), which engages in financing activities for NiSource and certain of its subsidiaries, excluding Northern Indiana Public Service Company (Northern Indiana).

NET INCOME

Net income decreased \$33.5 million from 1998 to \$160.4 million for 1999. The 1999 and 1998 twelve month periods are not directly comparable due to the acquisition of Bay State Gas Company (BSG) in February 1999 and TPC in April 1999. As natural gas businesses, BSG and TPC record the bulk of their revenues during the winter heating season. The timing of these acquisitions, the seasonal nature of these operations and a milder-than-normal winter and fall resulted in lower earnings for the year.

Excluding the results of operations of the BSG and TPC, 1999 earnings reflected stronger operating results from NiSource's electric and water businesses along with continued customer growth. Results include after-tax

charges of \$8.1 million incurred in connection with the company's attempted acquisition of Columbia Energy Group (CEG). NiSource also recorded after-tax adjustments of \$21.7 million during 1999. These adjustments were the result of adverse economic conditions which impacted equity investments, the most significant of which was in oil and gas development, and the decision to abandon a number of non-core businesses and facilities.

For 1998, net income increased \$3.1 million from 1997 to \$193.9 million due primarily to an increase in electric utility margin resulting from a warmer 1998 summer as compared to 1997 and a full year of results of operations relating to the Water Utilities, offset partially by a weak performance in electric wholesale operations.

GAS REVENUES

The gas revenues described herein represent the combined revenues of our gas utilities and gas marketing segments adjusted for intercompany transactions. Gas revenues were \$1.7 billion in 1999, an increase of \$443.7 million from 1998. This increase was primarily due to the inclusion of \$316.4 million gas revenues from BSG, increased gas marketing and trading revenues as a result of the TPC acquisition in April 1999 and increased gas sales to residential customers as a result of colder weather during 1999, partially offset by decreased gas sales to commercial and industrial customers. During 1999, gas deliveries in dekatherms (dth), which include transportation services and BSG, increased 31%. Gas deliveries to residential and commercial customers increased reflecting the acquisition of BSG and heating degree-days 12%

higher than 1998. The Energy Utilities had 1,071,221 gas customers at December 31, 1999.

Gas revenues were \$1.2 billion in 1998, an increase of \$25.2 million from 1997. This increase is attributable to increased gas marketing activity partially offset by decreased deliveries to residential and commercial customers due to significantly warmer weather than 1997, decreased gas costs per dth and decreased gas transition costs. During 1998, gas deliveries in dth, which include transportation services, increased 6% due to increased gas marketing activities, partially offset by gas deliveries to residential and commercial customers which decreased 20% and 23%, respectively, reflecting heating degree-days 21% lower than 1997.

Large commercial and industrial customers continue

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to utilize transportation services provided by the Energy Utilities. Gas transportation customers purchase much of their gas directly from producers and marketers and then pay a transportation fee to have their gas delivered over the Energy Utilities' systems. The Energy Utilities transported 252.5, 202.9, and 200.9 million dth for others in 1999, 1998 and 1997, respectively. The basic steel industry accounted for 15% of natural gas delivered (including volumes transported) during 1999.

The components of the changes in gas revenues are shown in the following table:

	Year 1999 Compared to Year 1998	Year 1998 Compared to Year 1997
(In millions)		
Gas Revenue Changes		
Pass through of net changes in purchased gas costs, gas storage and storage transportation costs	\$ 12.9	\$ (60.6)
Gas transition costs.	(4.3)	(22.4)
Changes in sales levels .	26.1	(100.5)
Bay State Gas		
Acquisition	316.4	—
Gas transported	6.4	8.4
Gas marketing and trading	86.2	200.3
Gas Revenue Change	<u>\$443.7</u>	<u>\$ 25.2</u>

GAS COSTS OF SALES

The gas costs described herein represent the combined costs of our gas utilities and gas marketing segments adjusted for intercompany transactions. The gas costs increased \$262.4 million (28%) in 1999 due to the inclusion of gas costs of \$155.2 million for BSG, increased gas marketing and trading activities and increased purchased gas costs per dth for the Energy Utilities. The average cost for the Energy Utilities' purchased gas in 1999, after adjustment for gas transition costs billed to transport customers, was \$2.67 per dth excluding purchased gas

costs of BSG as compared to \$2.60 per dth in 1998. Gas costs increased \$67.9 million (8%) in 1998 mainly due to increased purchases of gas of \$198 million related to gas marketing activities partially offset by decreased gas purchases, decreased gas transition costs and decreased gas costs per dth by the Energy Utilities. The average cost for the Energy Utilities' purchased gas in 1998, after adjustment for gas transition costs billed to transport customers, was \$2.60 per dth as compared to \$3.15 per dth in 1997.

GAS OPERATING MARGINS

Gas operating margin increased \$181.3 million in 1999. This increase mainly reflects \$161.2 million of gas operating margin from BSG and increased deliveries to residential and commercial customers reflecting colder weather during 1999, partially offset by decreased deliveries to industrial customers.

Gas operating margin decreased \$42.7 million in 1998 due to decreased deliveries to residential and commercial customers reflecting the warmer heating season in 1998 than 1997, partially offset by increased deliveries of gas transported for others.

ELECTRIC REVENUES

In 1999, electric revenues were \$1.1 billion (after elimination of intercompany transactions of approximately \$3.0 million), a decrease of \$305.6 million from 1998. Sales of electricity in kilowatt-hours (kwh) decreased 38% from 1998. Electric revenues decreased as a result of significantly reduced non-regulated wholesale sales and power marketing transactions, partially offset by increased electric sales to residential and commercial customers due to warmer weather during the third quarter of 1999, and increased industrial sales. Sales to residential and commercial customers increased 2% and 4% in

kwh, respectively, reflecting the warmer summer in 1999. At December 31, 1999, NiSource had 425,833 electric customers.

In 1998, electric revenues were \$1.4 billion, an increase of \$242.0 million from 1997. Sales of electricity in kwh increased 25.5% from 1997. The increase in electric revenue was primarily due to increased sales to residential and commercial customers (increases of 7% and 6% in kwh, respectively), reflecting a significantly warmer summer in 1998 and increased wholesale sales and power marketing activities. The increases were

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partially offset by a 2% kwh reduction in sales to industrial customers, reflecting a full year of operations at two cogeneration projects located at major industrial customers' facilities. The basic steel industry accounted for 29% of electric sales during 1999.

The components of the changes in electric revenues are shown in the following table:

	Year 1999 Compared to Year 1998	Year 1998 Compared to Year 1997
	(In millions)	
Electric Revenue Changes		
Pass through of net		
changes in fuel costs	\$ 5.5	\$ (9.3)
Changes in sales		
levels.....	39.1	15.3
Wholesale sales and		
power marketing	(350.2)	236.0
Electric Revenue		
Change	<u>\$(305.6)</u>	<u>\$242.0</u>

ELECTRIC COST OF SALES

Cost of fuel for electric generation in 1999 decreased \$1.5 million compared to 1998 primarily due to decreased fuel costs per kwh generated. The average cost per kwh generated decreased 3% from 1998 to 1.47

cents per kwh in 1999. Cost of fuel for electric generation in 1998 increased mainly as a result of increased production of 8%. The average cost per kwh generated decreased 3% from 1997 to 1.52 cents per kwh in 1998.

POWER PURCHASED

Power Purchased decreased \$340.5 million in 1999 as a result of decreased wholesale sales and power marketing activities. Power purchased increased \$208.5 million in

1998 as a result of increased bulk power purchases and increased wholesale power marketing activities.

ELECTRIC OPERATING MARGINS

Operating margin from electric sales in 1999 increased \$36.5 million. This increase occurred mainly due to improved margins on wholesale sales and power trading transactions and increased sales to residential and commercial customers as a result of warmer weather in the third quarter of 1999. Operating margin from electric

sales in 1998 increased \$21.4 million due to increased sales to residential and commercial customers, reflecting a significantly warmer summer in 1998 than in 1997, and increased wholesale sales, partially offset by decreased sales to industrial customers.

WATER REVENUE

Water revenues in 1999 were \$98.4 million (after elimination of intercompany transactions of approximately \$0.1 million), of which water sales to residential and commercial customers accounted for \$88.2 million. The \$14.4 million increase was primarily due to increased water volumes sold and increased water rates for Indianapolis Water Company (IWC) that became effective on April 8, 1998 and April 8, 1999. The Water Utilities had sales of 45,424 in millions of gallons (m.g.)

and served 275,688 customers at December 31, 1999. Water revenues for 1998 were \$84.0 million. Water sales to residential and commercial customers accounted for \$75.2 million of 1998 revenues. The Water Utilities had sales of 40,822 m.g. and served 253,664 customers at December 31, 1998. Water revenues for the period April 1997 through December 1997 were \$60.7 million, of which water sales to residential and commercial customers accounted for \$54.4 million. March 1997 was the

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month during which NiSource acquired the Water Utilities. The Water Utilities had sales of 32,504 m.g. during the last nine months of 1997 and served 246,643 customers at December 31, 1997.

The components of the changes in water revenues are shown in the following table:

	Year 1999 Compared to Year 1998	Year 1998 Compared to Year 1997
(In millions)		
Water Revenue Changes		
Rate increase	\$ 4.9	\$ 3.9
Changes in sales levels ..	9.5	19.4
Water Revenue Change	<u>\$14.4</u>	<u>\$23.3</u>

WATER OPERATING MARGINS

The Water Utilities' operating margin in 1999 increased \$14.4 million. This increase was primarily due to increased water volumes sold and increased water rates for IWC that became effective on April 8, 1998 and April 8, 1999. The Water Utilities' operating margin in 1998 increased \$23.2 million reflecting the inclusion in the

NiSource consolidated financial statements of a full year of the Water Utilities' operating results in 1998. The Water Utilities contributed \$60.7 million to operating margin in 1997, reflecting the March 1997 acquisition of the Water Utilities.

PRODUCTS AND SERVICES REVENUE

In 1999, Products and Services revenues were \$271.7 million (after elimination of intercompany transactions of approximately \$12 million), an increase of \$59.3 million from 1998. This increase reflects revenues from a new cogeneration project which began commercial operations in August 1998, increased pipeline construction activity, increased line locating and marking activity and the inclusion of revenue of BSG's unregulated subsidiaries commencing in February 1999. In 1998, Products and Services revenues were \$212.4 million, an increase of \$55.8 million from 1997. This increase reflected increased pipeline construction activity and line locating and marking activities in the amount of \$31.7 million reflecting a full year of operations included in 1998 (the pipeline construction and line locating businesses were acquired in March 1997) and a new cogeneration project which began commercial operations in August 1998.

The components of the changes in operating revenues at Products and Services are shown in the following table:

	Year 1999 Compared to Year 1998	Year 1998 Compared to Year 1997
(In millions)		
Products and Services		
Revenue Changes		
Pipeline construction	\$11.1	\$14.4
Locate and marking	5.4	17.3
Cogeneration project ...	19.1	16.1
Other	23.7	8.0
Products and Services		
Revenue Change	<u>\$59.3</u>	<u>\$55.8</u>

PRODUCTS AND SERVICES COST OF SALES

The cost of sales in 1999 for Products and Services increased \$38.3 million. This increase reflects the inclusion of cost of sales for certain subsidiaries acquired in connection with the BSG acquisition and increased pipeline construction activity and line locating and marking activities.

The cost of sales in 1998 for Products and Services increased \$28.3 million mainly due to inclusion of the cost of sales for the pipeline construction and line locating and marking subsidiaries (acquired in March 1997) for twelve months in 1998 compared to nine months in 1997.

PRODUCTS AND SERVICES OPERATING MARGINS

Products and Services operating margin increased \$21.0 million during 1999, reflecting a new energy-related project, which began commercial operations in August 1998 and increased pipeline construction activity and the inclusion of the operating margin of BSG's unregulated subsidiaries in February 1999. Products and

Services operating margin in 1998 increased \$27.6 million reflecting the inclusion of a full year of operations of pipeline construction activity and line locating and marking activities and a new cogeneration project which began commercial operations in August 1998.

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OPERATING EXPENSES AND TAXES (EXCEPT INCOME)

Operating expenses and taxes (except income) increased \$213.1 million from 1998, of which \$127.3 million is due to the acquisition of BSG in February 1999. Operating expenses and taxes (except income) increased \$18.5 million in 1998 from 1997.

The operating and maintenance expenses of the Energy Utilities increased \$89.1 million from 1998. The increase was primarily due to the inclusion of \$79.1 million of operating expenses of BSG commencing in February 1999, increased operating costs of \$7.4 million, increased employee related costs of \$15.6 million and increased expenses for distributed generation and fuel cell research and development which were partially offset by a \$13 million insurance settlement related to manufactured gas plants site cleanup costs. The unregulated gas and electric businesses operation expenses increased \$10.4 million primarily due to the inclusion of \$6.1 million of TPC operation costs from April to December 1999. Operating and maintenance expenses at the Energy Utilities decreased \$22.7 million 1998 from 1997 mainly due to decreased employee related costs of \$11.7 million, decreased sales and marketing activities of \$5.7 million and decreased electric production operating costs of \$4.3 million.

Operating expenses at the Water Utilities increased \$5.8 million from 1998 due to increased water treatment and employee related costs. Operation expenses at the Water Utilities increased \$12.2 million from 1997 reflecting the inclusion of a full year of operation of the Water Utilities.

Operating expenses for Products and Services increased \$14 million in 1999 reflecting the inclusion of operating expense of BSG's unregulated subsidiaries in February 1999, and a full year of operating costs for a new cogeneration facility which began commercial operation during 1998. Operating expenses for Products and Services increased \$22.6 million in 1998 from 1997 reflecting a full year of operations for pipeline construction and line locating activities acquired in March 1997 and the startup of operations of a new cogeneration facility during 1998.

Operating expenses also include charges of \$13.1 million for professional fees and filing costs incurred during 1999 in connection with the attempted acquisition of CEG.

Depreciation and amortization expenses increased \$54.9 million in 1999 from 1998, primarily resulting from inclusion of depreciation and amortization for BSG (\$36.2 million) and increased depreciation expense at the Energy and Water Utilities due to plant additions. Depreciation and amortization expense increased \$6.7 million in 1998 from 1997 as a result of plant additions and the inclusion of twelve months of depreciation and amortization expenses for the Water Utilities and its unregulated subsidiaries, including the pipeline construction business and the line locating and marking business.

Taxes (except income) increased \$15.4 million in 1999 primarily as the result of the BSG acquisition (\$12.0 million).

INTEREST EXPENSE, NET

Interest expense, net increased \$37.8 million and \$8.2 million in 1999 and 1998, respectively. The 1999 increase reflects the inclusion of interest charges for BSG of \$19 million, interest on the September 1999 issuance of \$160 million in Puttable Reset Securities (PURS) and increased interest expense on higher short-term borrowings. The 1998 increase reflects twelve months of interest

payments on \$300 million of Capital Markets' medium-term notes and \$75 million of Capital Markets' Junior Subordinated Deferrable Interest Debentures, Series A and the inclusion of twelve months of interest expense at IWC Resources Corporation (IWCRC), which was acquired in March 1997.

MINORITY INTERESTS

The 1999 increase of \$16.7 million in minority interests reflects the dividends paid on Company-obligated

mandatorily redeemable Preferred Securities issued in February 1999.

OTHER, NET

Other, net decreased \$29.6 million primarily reflecting the impact of adverse economic conditions on certain equity investments, the most significant of which was in

oil and gas development. NiSource also decided to abandon certain businesses and facilities that were not consistent with its strategic direction.

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INCOME TAXES

Income Taxes decreased \$10.4 million in 1999. This decrease is primarily a result of decreased income before income taxes. Income taxes decreased \$5.3 million in 1998. This decrease is primarily as a result of a decrease in income

before income taxes and a lower effective income tax rate.

See Notes to Consolidated Financial Statements for a discussion of accounting policies and transactions impacting this analysis.

ENVIRONMENTAL MATTERS

The operations of NiSource are subject to extensive and evolving federal, state and local environmental laws and regulations intended to protect the public health and the environment. Such environmental laws and regulations affect NiSource's operations as they relate to impacts on

air, water and land.

Refer to "Environmental Matters" in the Notes to Consolidated Financial Statements for information regarding certain environmental issues.

LIQUIDITY AND CAPITAL RESOURCES

Generally, cash flow from operations has provided sufficient liquidity to meet current operating requirements. Because the utility and utility construction business is seasonal in nature, commercial paper is issued for short-term financing. As of December 31, 1999 and December 31, 1998, \$299.6 million and \$193.7 million of commercial paper was outstanding, respectively. The weighted average interest rate on commercial paper outstanding as of December 31, 1999 was 6.29%.

NiSource and its subsidiaries may borrow under two five-year, \$100 million revolving credit agreements that terminate on September 23, 2003 and two 364-day \$100 million revolving credit agreements that terminate on September 23, 2000. The 364-day agreements may be extended at expiration for additional periods of 364 days. Under these agreements, funds are borrowed at a floating rate of interest or, under certain circumstances, at a fixed rate of interest for short-term periods. These agreements provide financing flexibility and may be used to support the issuance of commercial paper. At December 31, 1999 and 1998, there were no borrowings outstanding under these agreements.

In addition, various NiSource subsidiaries maintain lines of credit for up to an aggregate of \$199.9 million with lenders at either the lender's commercial prime or market lending rates. As of December 31, 1999, there were \$54.1 million of borrowings outstanding under these lines of credit with a weighted average interest rate of 6.06%. As of December 31, 1998, there were \$84.1 million of borrowings outstanding under these lines of credit.

NiSource and its subsidiaries maintain money market lines of credit for up to \$394.4 million. As of December 31, 1999, there were \$156.2 million outstanding under these money market lines of credit at a weighted average interest rate of 6.78%. At December 31, 1998, there were \$127.3 million of borrowings outstanding under these money market lines of credit.

Forty million dollars in revenue bonds were issued in July 1998 and \$80.0 million in medium-term notes were issued in February 1999. The revenue bonds, which were

used to redeem previously existing revenue bonds, bear interest at 5.95% per annum and mature on July 15, 2028. The medium-term notes, which were used in part to reduce existing credit facilities, consist of \$35.0 million in ten-year notes that bear interest at 5.99% interest per annum and \$45.0 million in twenty-year notes that bear interest at 6.61% per annum.

In February 1999 an underwritten public offering of Corporate Premium Income Equity Securities (Corporate PIES) was completed. The net proceeds of approximately \$334.7 million were primarily used to refinance the short-term borrowings incurred to pay the cash portion of the acquisition cost of BSG, and repay other short-term indebtedness. In September 1999, Capital Markets issued \$160 million of PURS in an underwritten public offering and the underwriters acquired a call option to purchase the PURS on September 28, 2000. The net proceeds from the sale of the PURS of \$162.4 million were also used to refinance short-term indebtedness incurred in connection with the acquisition of BSG in February 1999. See "Short-Term Borrowings" in the Notes to the Consolidated Financial Statements for a description of the Corporate PIES and the PURS.

In June 1999, NiSource commenced a tender offer to acquire CEG. In December 1999, CEG acknowledged preliminary indications of interest from numerous other third parties and invited formal bids from those companies that had indicated a preliminary value higher than the NiSource tender offer price of \$74 per share. As a result, in December, NiSource wrote off the costs associated with its tender offer. On February 11, 2000, the NiSource tender offer expired.

On February 28, 2000, after completion of the bidding process initiated by CEG, NiSource and CEG announced approval of a merger agreement under which NiSource will form a new holding company, which will acquire all of the outstanding shares of CEG valued at approximately \$6 billion. The new holding company will also assume approximately \$2.5 billion of CEG debt. Under the agreement, CEG shareholders have the option

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to receive new holding company stock for up to 30% of the outstanding CEG shares. Under the common stock option, each CEG share will be exchanged for \$74 in new holding company stock, based on the average NiSource share price prior to the closing, but not more than 4.4848 shares of new holding company stock for each CEG share. Under the cash option, each CEG share will be exchanged for \$70 in cash plus a \$2.60 face value unit (consisting of a zero coupon debt security with a forward equity contract). A commitment letter was accepted under which certain financial institutions agreed, under specified conditions, to provide up to \$6.0 billion to finance the acquisition of CEG. The merger is conditioned upon, among other things, the approvals of the shareholders of both companies and various regulatory commissions. If NiSource shareholder approval is not obtained, the merger agreement provides that the transaction will automatically be restructured to eliminate the 30% common stock option for CEG shareholders.

Utility construction expenditures for 1999, 1998 and 1997 were approximately \$341 million, \$245 million and \$219 million, respectively. NiSource's total utility plant investment on December 31, 1999 was \$8.2 bil-

lion. During recent years, NiSource has been able to finance its construction program with internally generated funds and expects to be able to meet future commitments through such funds.

The Energy Utilities do not anticipate the need to file for retail gas or electric base rate increases in the near future. IWC has agreed to a moratorium on water rate increases until 2002.

On January 27, 2000, the Citizens Action Coalition (CAC), a private consumer organization, filed a petition before the Indiana Utility Regulatory Commission (IURC). The petition does not seek a specified amount of rate reduction, but rather alleges that the existing Northern Indiana electric rates are "unreasonable and unsafe," and seeks to have the IURC force Northern Indiana to produce detailed financial calculations that would justify its electric rates. Northern Indiana intends to oppose the petition on both legal and factual grounds, and believes that its current rates are just and reasonable as required by statute.

During 1999, NiSource's non-utility subsidiaries acquired interests in other properties and investments totalling approximately \$44 million.

MARKET RISK SENSITIVE INSTRUMENTS AND POSITIONS

Risk Management

Risk is an inherent part of NiSource's energy businesses and activities. The extent to which NiSource properly and effectively identifies, assesses, monitors and manages each of the various types of risk involved in its businesses is critical to its profitability. NiSource seeks to identify, assess, monitor and manage, in accordance with defined policies and procedures, the following principal risks involved in NiSource's energy businesses: commodity market risk, interest rate risk, credit risk and foreign currency risk. Risk management at NiSource is a multifaceted process with independent oversight that requires constant communication, judgment and knowledge of specialized products and markets. NiSource's senior management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in the identification, assessment and control of various risks. In recognition of the increasingly varied and complex nature of the energy business, NiSource's risk management policies and procedures are evolving and subject to ongoing review and modification.

NiSource is exposed to risk through various daily business activities, including specific trading risks and non-trading risks. The non-trading risks to which NiSource is exposed include interest rate risk, foreign currency risk and commodity price risk of its Energy Utilities and certain gas marketing activities. The market risk resulting from trading activities consists primarily of commodity price risk. NiSource's risk management policy permits the use of certain financial instruments to manage its market risk, including futures, forwards, options and swaps. Risk

management at NiSource is defined as the process by which the organization ensures that the risks to which it is exposed are the risks to which it desires to be exposed to achieve its primary business objectives. NiSource employs various analytic techniques to measure and monitor its market risks, including value-at-risk (VaR) and instrument sensitivity to market factors. VaR represents the potential loss for an instrument or portfolio from adverse changes in market factors, for a specified time period and at a specified confidence level.

Trading Risks

Commodity Market Risk. Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. NiSource employs a VaR model to assess the market risk of all open derivative financial instruments. NiSource estimates the one-day VaR across all trading groups which utilize derivatives using either Monte Carlo simulation or variance/covariance at a 95 percent confidence level. Based on the results of the VaR analysis, the daily market risk exposure for power trading on an average, high, and low basis was \$0.4, \$1.2, and \$0.014 million during 1999, respectively. The daily VaR for gas trading on an average, high and low basis was \$1.3, \$2.1 and \$0.4 million, during 1999, respectively. At December 31, 1998, the daily VaR for gas trading was not significant.

NiSource implemented a VaR methodology in 1999 to introduce additional market sophistication and to recognize the developing complexity of its businesses.

Non-Trading Risks

Commodity Market Risk. Currently, commodity price risk resulting from non-trading activities at the Energy Utilities is limited, since current regulations allow the Energy Utilities to recoup any prudently incurred fuel and gas costs through rate-making. As the utility industry undergoes deregulation, however, the Energy Utilities will be providing services without the benefit of the traditional rate-making and, therefore, will be more exposed to commodity price risk. Additionally, NiSource enters into certain sales contracts with customers based upon a fixed sales price and varying volumes which are ultimately dependent upon the customer's supply requirements. NiSource utilizes derivative financial instruments to reduce the commodity price risk based on modeling techniques to anticipate these future supply requirements.

Interest Rate Risk. Long-term debt is utilized as a primary source of capital. A significant portion of this long-term debt consists of medium-term notes. In addition, longer term fixed-price debt instruments have been used that in the past have been refinanced when interest rates decreased. To the extent that such refinancing is economical, refinancing these fixed-price instruments will continue.

Credit Risk. Credit risk arises in many of NiSource's business activities. In sales and trading activities, credit risk arises because of the possibility that a counterparty will not be able or willing to fulfill its obligations on a transaction on or before settlement date. In derivative activities, credit risk arises when counterparties to deriv-

ative contracts, such as interest rate swaps, are obligated to pay NiSource the positive fair value or receivable resulting from the execution of contract terms. Exposure to credit risk is measured in terms of both current and potential exposure. Current credit exposure is generally measured by the notional or principal value of financial instruments and direct credit substitutes, such as commitments and standby letters of credit and guarantees. Current credit exposure includes the positive fair value of derivative instruments. Because many of NiSource's exposures vary with changes in market prices, NiSource also estimates the potential credit exposure over the remaining term of transactions through statistical analyses of market prices. In determining exposure, NiSource considers collateral and master netting agreements, which are used to reduce individual counterparty risk, primarily in connection with derivative products.

Foreign Currency Risk. NiSource is exposed to foreign currency risk arising from equity investments in businesses owned and operated in foreign countries. Exposures to these investments are periodically reviewed by management and were not material to consolidated results in 1999.

Refer to Consolidated Statement of Long-Term Debt for detailed information related to NiSource's long-term debt outstanding and "Fair Value of Financial Instruments" in Notes to Consolidated Financial Statements for current market valuation of long-term debt. Refer to "Summary of Significant Accounting Policies—Accounting for Price Risk Management Activities" for further discussion of NiSource's risk management.

YEAR 2000 COSTS

Risks

"Year 2000 issues" were concerned with the ability of electronic processing equipment to process date sensitive information and recognize the last two digits of a date as occurring in or after the year 2000. Any failure in any system could have resulted in material operational and financial risks. Possible scenarios included a system failure in a generating plant, an operating disruption or delay in transmission or distribution of gas, electricity or water, or an inability to interconnect with the systems of other utilities. Failure to achieve year 2000 readiness could have had a material adverse effect on results of operations, financial position and cash flows.

The program to address risks associated with the year 2000 on both information technology (IT) and non-IT systems was completed in a timely manner.

State of Readiness

The NiSource year 2000 program consisted of four phases: inventory (identifying systems potentially affected by the year 2000), assessment (testing identified systems), remediation (correcting or replacing non-compliant systems) and validation (evaluating testing remediated systems to confirm compliance). All phases in all subsidiaries were completed in a timely manner.

Because NiSource depends on outside suppliers and vendors with similar year 2000 issues, the ability of those suppliers and vendors to provide an uninterrupted supply of goods and services was assessed. Critical vendors and suppliers were contacted in order to investigate their year 2000 efforts. In addition, electricity and gas industry groups such as the North American Electric Reliability Council, the Electric Power Research Institute and the American Gas Association were helpful in evaluating the potential impact of year 2000 problems upon the electric grid systems and pipeline networks.

Costs

The total cost of the NiSource year 2000 program was \$25.0 million. These costs were funded from operations. Costs related to the maintenance or modification of existing systems were expensed as incurred. Costs related to the acquisition of replacement systems were capitalized. These costs did not have a material impact on results of operations.

Contingency Plans

NiSource developed its contingency plans to address the possibility that any mission-critical system would be non-compliant. This included identifying alternate suppliers

and vendors, conducting staff training and developing communication plans. In addition, NiSource evaluated the ability to maintain or restore service in the event of a power failure or operating disruption or delay, along with the limited ability to mitigate the effects of a network failure by isolating its own network from the non-compliant segments of the greater network. These contingency

plans were completed during the second quarter of 1999 and reviewed during the fourth quarter of 1999. They were not needed for the century rollover.

Results

NiSource did not experience any system failures as a result of the year 2000 issue.

COMPETITION AND REGULATORY CHANGES

The regulatory frameworks applicable to the Energy Utilities, at both the state and federal levels, are undergoing fundamental changes. These changes have impacted and will continue to have an impact on NiSource's operations, structure and profitability. At the same time, competition within the electric and gas industries will create opportunities to compete for new customers and revenues. Management has taken steps to become more competitive and profitable in this changing environment, including partnering on energy projects with major industrial customers, converting some of its generating units to allow use of lower cost, low sulfur coal, providing its gas customers with increased customer choice for new products and services, acquiring companies which increase our scale and establishing subsidiaries that provide gas and develop new energy-related products for residential, commercial and industrial customers.

The Electric Industry. At the Federal level, the Federal Energy Regulatory Commission (FERC) issued Order No. 888-A in 1996 which required all public utilities owning, controlling or operating transmission lines to file non-discriminatory open-access tariffs and offer wholesale electricity suppliers and marketers the same transmission service they provide themselves. In 1997, FERC approved Northern Indiana's open-access transmission tariff. On December 20, 1999, FERC issued a final rule addressing the formation and operation of Regional Transmission Organizations (RTOs). The rule is intended to eliminate pricing inequities in the provision of wholesale transmission service. NiSource does not believe that compliance with the new rules will be material to future earnings. Although wholesale customers currently represent a small portion of Northern Indiana's electricity sales, it intends to continue its efforts to retain and add wholesale customers by offering competitive rates and also intends to expand the customer base for which it provides transmission services.

At the state level, NiSource announced in 1997 and 1998 that if a consensus could be reached regarding electric utility restructuring legislation, NiSource would support a restructuring bill before the Indiana General Assembly. During 1999, discussions were held with the other investor-owned utilities in Indiana and with other segments of the Indiana electric industry regarding the technical and economic aspects of possible legislation leading to greater customer choice. A consensus was not

reached. Therefore, NiSource did not support legislation regarding electric restructuring during the 2000 session of the Indiana General Assembly. During 2000, discussions will continue with all segments of the Indiana electric industry in an attempt to reach a consensus on electric restructuring legislation for introduction during the 2001 session of the Indiana General Assembly.

The Gas Industry. At the Federal level, gas industry deregulation began in the mid-1980s when FERC required interstate pipelines to provide nondiscriminatory transportation services pursuant to unbundled rates. This regulatory change permitted large industrial and commercial customers to purchase their gas supplies either from the Energy Utilities or directly from competing producers and marketers, which would then use the Energy Utilities' facilities to transport the gas. More recently, the focus of deregulation in the gas industry has shifted to the states.

At the state level, the IURC approved in 1997 Northern Indiana's Alternative Regulatory Plan (ARP) which implemented new rates and services that included, among other things, unbundling of services for additional customer classes (primarily residential and commercial users), negotiated services and prices, a gas cost incentive mechanism, and a price protection program. The gas cost incentive mechanism allows Northern Indiana to share any cost savings or cost increases with its customers based upon a comparison of Northern Indiana's actual gas supply portfolio cost to a market-based benchmark price. Phase I of Northern Indiana's Customer Choice Pilot Program ended on March 31, 1999. This pilot program offered 82,000 residential customers within St. Joseph County and 10,000 commercial customers throughout the NiSource service area the right to choose alternative gas suppliers. Phase II of Northern Indiana's Customer Choice Pilot Program commenced April 1, 1999 and will continue for a one-year period. During this phase, Northern Indiana is offering customer choice to all 660,000 residential and 50,000 commercial customers throughout its gas service territory. A limit of 150,000 residential and 20,000 commercial customers are eligible to enroll in Phase II of the program. The IURC order allows NiSource's natural gas marketing subsidiary to participate as a supplier of choice to Northern Indiana customers. In addition, as Northern Indiana has allowed residential and commercial customers to designate alternative gas suppliers, it has also

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offered new services to all classes of customers including price protection, negotiated sales and services, gas lending and parking, and new storage services.

In Massachusetts, Bay State implemented new unbundled rates and services for all commercial-industrial customers in 1993, and launched one of the nation's earliest residential and small commercial-industrial customer choice pilot programs in 1996. The Bay State pilot, in which almost 28% of eligible customers participated, is scheduled to conclude on April 1, 2000 when all Massachusetts gas utilities are expected to begin making unbundled gas service available to all customer classes pursuant to new statewide model terms and conditions that are currently awaiting approval by the Massachusetts Department of Telecommunications and Energy.

In New Hampshire, Northern Utilities introduced unbundled tariffs and services for all commercial-industrial customers in 1994. In 1998, the New Hampshire Public Utilities Commission (NHPUC) formed a collaborative group to investigate the merits of further unbundling and advise the NHPUC accordingly. The collaborative group has recommended new model tariffs and regulation designed to make unbundled services

available to all commercial-industrial customers statewide on November 1, 2000, with consideration of residential unbundling at a later date. Hearings before the NHPUC regarding the recommendations are expected to be held during the first quarter of 2000.

In Maine, Northern Utilities introduced unbundled rates and services for large commercial-industrial customers in December 1995 and expanded the availability to all daily metered commercial and industrial customers on November 1, 1999. In June 1999 the Maine Public Utilities Commission opened an inquiry into the potential merits of further regulatory changes related to unbundling. This inquiry is intended to investigate all the key elements of full customer choice and will include a review of customer choice programs in Massachusetts and New Hampshire.

To date, the Energy Utilities have not been materially affected by competition and management does not foresee substantial adverse affects in the near future unless the current regulatory structure is substantially altered. NiSource believes the steps that it has taken to deal with increased competition have had and will continue to have significant positive effects in the next few years.

IMPACT OF ACCOUNTING STANDARDS

Refer to "Summary of Significant Accounting Policies—Impact of Accounting Standards" in the Notes to Con-

solidated Financial Statements for information regarding impact of accounting standards not yet adopted.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the securities laws. Forward-looking statements include terms such as "may," "will," "expect," "believe," "plan" and other similar terms. NiSource cautions that, while it believes such statements to be based on reasonable assumptions and makes such statements in good faith, you cannot be assured that the actual results will not differ materially from such assumptions or that the expectations set forth in the forward-looking statements derived from these assumptions will be realized. You should be aware of important factors

that could have a material impact on future results. These factors include weather, the federal and state regulatory environment, the economic climate, regional, commercial, industrial and residential growth in the service territories served by NiSource's subsidiaries, customers' usage patterns and preferences, the speed and degree to which competition enters the utility industry, the timing and extent of changes in commodity prices, changing conditions in the capital and equity markets and other uncertainties, all of which are difficult to predict, and many of which are beyond NiSource's control.

CONSOLIDATED STATEMENT OF INCOME

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Year Ended December 31,	1999	1998	1997
	(Dollars in thousands, except per share amounts)		
Operating Revenues:			
Gas	\$1,653,450	\$1,209,775	\$1,184,621
Electric	1,121,038	1,426,600	1,184,591
Water	98,383	83,979	60,743
Products and Services	271,705	212,424	156,586
	<u>3,144,576</u>	<u>2,932,778</u>	<u>2,586,541</u>
Cost of Sales:			
Gas costs	1,187,458	925,038	857,146
Fuel for electric generation	249,164	250,649	238,548
Power purchased	71,745	412,290	203,800
Products and Services	142,684	104,390	76,120
	<u>1,651,051</u>	<u>1,692,367</u>	<u>1,375,614</u>
Operating Margin	<u>1,493,525</u>	<u>1,240,411</u>	<u>1,210,927</u>
Operating Expenses and Taxes (except income):			
Operation	534,808	399,594	390,253
Maintenance	82,208	74,630	76,552
Depreciation and amortization	311,404	256,474	249,804
Taxes (except income)	103,569	88,207	83,765
	<u>1,031,989</u>	<u>818,905</u>	<u>800,374</u>
Operating Income	<u>461,536</u>	<u>421,506</u>	<u>410,553</u>
Other Income (Deductions):			
Interest expense, net	(166,617)	(128,804)	(120,607)
Minority interests	(17,693)	(1,024)	(356)
Dividend requirements on preferred stock	(8,334)	(8,538)	(8,691)
Other, net	(18,030)	11,608	16,124
	<u>(210,674)</u>	<u>(126,758)</u>	<u>(113,530)</u>
Income before income taxes	<u>250,862</u>	<u>294,748</u>	<u>297,023</u>
Income Taxes	<u>90,448</u>	<u>100,862</u>	<u>106,174</u>
Net Income	<u>\$ 160,414</u>	<u>\$ 193,886</u>	<u>\$ 190,849</u>
Average common shares outstanding—basic	<u>124,343,117</u>	<u>120,778,077</u>	<u>123,849,126</u>
Basic earnings per average common share	<u>\$ 1.29</u>	<u>\$ 1.60</u>	<u>\$ 1.54</u>
Diluted earnings per average common share	<u>\$ 1.27</u>	<u>\$ 1.59</u>	<u>\$ 1.53</u>
Dividends declared per common share	<u>\$1.035</u>	<u>\$0.975</u>	<u>\$0.915</u>

The accompanying notes to consolidated financial statements are an integral part of this statement.

CONSOLIDATED STATEMENT OF CASH FLOWS

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Year Ended December 31,	1999	1998	1997
		(Dollars in thousands)	
Cash flows from operating activities:			
Net income	\$ 160,414	\$ 193,886	\$ 190,849
Adjustments to reconcile net income to net cash:			
Depreciation and amortization	311,404	256,474	249,804
Deferred federal and state operating income taxes, net	(7,891)	(21,941)	(1,649)
Deferred investment tax credits, net	(7,691)	(7,361)	(7,376)
Other, net	22,472	(2,740)	(9,756)
Change in certain assets and liabilities—*			
Accounts receivable, net	52,508	(21,137)	(37,369)
Other receivables	8,570	75,451	(65,047)
Natural gas in storage	46,905	(8,204)	3,657
Accounts payable	(113,534)	19,785	(18,567)
Taxes accrued	(3,714)	(9,833)	3,389
Gas cost adjustment clause	(20,660)	44,253	10,223
Accrued employment costs	252	(6,678)	12,135
Other accruals	36,540	(11,641)	11,994
Other, net	(32,545)	(16,182)	92,270
Net cash provided by operating activities	453,030	484,132	434,557
Cash flows provided by (used in) investing activities:			
Utility construction expenditures	(341,263)	(245,825)	(218,931)
Acquisition of businesses, net of cash acquired	(737,869)	—	(288,932)
Proceeds from disposition of assets	29,775	12,588	35,993
Proceeds from settlement of litigation	—	—	41,069
Other, net	(61,080)	(57,638)	(66,561)
Net cash used in investing activities	(1,110,437)	(290,875)	(497,362)
Cash flows provided by (used in) financing activities:			
Issuance of long-term debt	269,536	47,380	658,232
Retirement of long-term debt	(203,957)	(95,631)	(324,604)
Change in short-term debt	168,978	197,018	(237,361)
Retirement of preferred shares	(2,407)	(2,413)	(2,408)
Proceeds from Corporate Premium Income			
Equity Securities, net	334,650	—	—
Issuance of common shares	324,893	10,356	218,566
Acquisition of treasury shares	(126,455)	(203,976)	(133,073)
Cash dividends paid on common shares	(125,599)	(116,386)	(111,593)
Other, net	453	463	(507)
Net cash provided by (used in) financing activities	640,092	(163,189)	67,252
Net increase (decrease) in cash and cash equivalents	(17,315)	30,068	4,447
Cash and cash equivalents at beginning of period	60,848	30,780	26,333
Cash and cash equivalents at end of period	\$ 43,533	\$ 60,848	\$ 30,780

*Net of effect from acquisitions of businesses.

The accompanying notes to consolidated financial statements are an integral part of these statements.

CONSOLIDATED BALANCE SHEET

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December 31,	1999	1998
	(Dollars in thousands)	
Assets		
Property, Plant and Equipment:		
Utility Plant (including construction work in progress of \$240,637 and \$197,112, respectively):		
Electric	\$4,237,427	\$4,154,060
Gas	2,871,824	1,447,945
Water	750,376	663,355
Common	381,486	364,822
	8,241,113	6,630,182
Less—Accumulated provision for depreciation and amortization	3,444,311	2,968,078
Total utility plant	4,796,802	3,662,104
Other property, at cost, less accumulated provision for depreciation of \$56,414 and \$39,090, respectively	433,616	86,565
Total Property, Plant and Equipment	5,230,418	3,748,669
Investments:		
Investments, at equity	118,259	111,340
Investments, at cost	55,851	41,609
Other investments	32,839	28,702
Total Investments	206,949	181,651
Current Assets:		
Cash and cash equivalents	43,533	60,848
Accounts receivable, less reserve of \$30,619 and \$8,984, respectively	390,990	261,971
Other receivables	6,572	1,780
Fuel adjustment clause	4,201	—
Gas cost adjustment clause	92,498	45,738
Materials and supplies, at average cost	64,530	62,818
Electric production fuel, at average cost	31,968	32,402
Natural gas in storage	63,750	69,640
Prepayments and other	73,561	41,670
Total current assets	771,603	576,867
Other Assets:		
Regulatory assets	208,634	209,059
Intangible assets, less accumulated provision for amortization	128,564	65,039
Prepayments and other	289,061	205,218
Total other assets	626,259	479,316
	<u>\$6,835,229</u>	<u>\$4,986,503</u>

CONSOLIDATED BALANCE SHEET

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December 31,	1999	1998
	(Dollars in thousands)	
Capitalization and Liabilities		
Capitalization:		
Common shareholders' equity.....	\$1,353,504	\$1,149,708
Preferred stocks—		
Northern Indiana Public Service Company:		
Series without mandatory redemption provisions.....	81,114	81,116
Series with mandatory redemption provisions.....	54,030	56,435
Indianapolis Water Company:		
Series without mandatory redemption provisions.....	4,497	4,497
Company-obligated mandatorily redeemable preferred securities		
of subsidiary trust holding solely Company debentures.....	345,000	—
Long-term debt, excluding amounts due within one year.....	1,975,184	1,667,965
Total capitalization.....	3,813,329	2,959,721
Current Liabilities:		
Current portion of long-term debt.....	173,721	6,790
Short-term borrowings.....	679,321	411,040
Accounts payable.....	277,358	251,399
Dividends declared on common and preferred stocks.....	34,535	31,072
Customer deposits.....	28,736	22,199
Taxes accrued.....	42,853	44,939
Interest accrued.....	34,157	21,202
Fuel adjustment clause.....	—	6,279
Accrued employment costs.....	60,647	52,121
Other.....	142,388	39,022
Total current liabilities.....	1,473,716	886,063
Other:		
Deferred income taxes.....	996,193	667,167
Deferred investment tax credits, being amortized over life of		
related property.....	94,946	98,177
Deferred credits.....	94,058	68,046
Customer advances and contributions in aid of construction.....	140,562	118,778
Accrued liability for postretirement benefits.....	157,517	143,870
Other noncurrent liabilities.....	64,908	44,681
Total other.....	1,548,184	1,140,719
Commitments and Contingencies (see notes)		
	\$6,835,229	\$4,986,503

The accompanying notes to consolidated financial statements are an integral part of this statement.

CONSOLIDATED STATEMENT OF CAPITALIZATION

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December 31,	1999		1998	
		(Dollars in thousands)		
Common shareholders' equity.....	\$1,353,504	35.5%	\$1,149,708	38.8%
Preferred Stocks, which are redeemable solely at option of issuer:				
Northern Indiana Public Service Company—				
Cumulative preferred stock—\$100 par value—				
4¼% series—209,035 and 209,051 shares				
outstanding, respectively.....	20,903		20,905	
4½% series—79,996 shares outstanding	8,000		8,000	
4.22% series—106,198 shares outstanding	10,620		10,620	
4.88% series—100,000 shares outstanding	10,000		10,000	
7.44% series—41,890 shares outstanding	4,189		4,189	
7.50% series—34,842 shares outstanding	3,484		3,484	
Premium on preferred stock.....	254		254	
Cumulative preferred stock—no par value—				
Adjustable Rate Series A (stated value—				
\$50 per share), 473,285 shares				
outstanding.....	23,664		23,664	
	81,114	2.1%	81,116	2.7%
Indianapolis Water Company—				
Cumulative preferred stock—\$100 par value—				
4¼% Series—44,966 shares outstanding	4,497	0.1%	4,497	0.2%
Redeemable Preferred Stocks, subject to mandatory redemption requirements or whose redemption is outside the control of issuer:				
Northern Indiana Public Service Company—				
Cumulative preferred stock—\$100 par value—				
8.85% series—37,500 and 50,000 shares				
outstanding, respectively.....	3,750		5,000	
7¾% series—27,798 and 33,352 shares				
outstanding, respectively.....	2,780		3,335	
8.35% series—45,000 and 51,000 shares				
outstanding, respectively.....	4,500		5,100	
Cumulative preferred stock—no par value—				
6.50% series—430,000 shares outstanding	43,000		43,000	
	54,030	1.4%	56,435	1.9%
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Company debentures	345,000	9.0%	—	—
Long-term debt.....	1,975,184	51.9%	1,667,965	56.4%
Total capitalization	\$3,813,329	100.0%	\$2,959,721	100.0%

The accompanying notes to consolidated financial statements are an integral part of this statement.

CONSOLIDATED STATEMENT OF LONG-TERM DEBT

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December 31,	1999	1998
	(Dollars in thousands)	
Northern Indiana Public Service Company:		
First mortgage bonds—		
Series T, 7½%—due April 1, 2002.....	\$ 38,500	\$ 39,000
Series NN, 7.10%—due July 1, 2017.....	55,000	55,000
Total.....	93,500	94,000
Pollution control notes and bonds—		
Series A note—City of Michigan City—5.70% due October 1, 2003.....	14,000	16,500
Series 1988 Bonds—Jasper County—Series A, B and C		
4.06% weighted average at December 31, 1999, due November 1, 2016.....	130,000	130,000
Series 1988 Bonds—Jasper County—Series D		
4.04% weighted average at December 31, 1999, due November 1, 2007.....	24,000	24,000
Series 1994 Bonds—Jasper County—Series A		
4.80% at December 31, 1999, due August 1, 2010.....	10,000	10,000
Series 1994 Bonds—Jasper County—Series B		
4.80% at December 31, 1999, due June 1, 2013.....	18,000	18,000
Series 1994 Bonds—Jasper County—Series C		
3.80% at December 31, 1999, due April 1, 2019.....	41,000	41,000
Total.....	237,000	239,500
Medium-term notes—		
Issued at interest rates between 6.50% and 7.69%, with a weighted average interest rate of 7.05% and various maturities between August 15, 2001 and August 4, 2027.....	593,025	748,025
Unamortized premium and discount on long-term debt, net.....	(3,112)	(3,567)
Total long-term debt of Northern Indiana Public Service Company.....	920,413	1,077,958
IWC Resources Corporation:		
Senior Notes Payable—6.31%—due March 15, 2001.....	14,000	14,000
Variable Bank Loan—7.47875%—due August 7, 2003.....	5,600	5,600
Installment promissory Note—7.00%—due December 1, 2018.....	10,237	—
Indianapolis Water Company:		
First mortgage bonds—		
Series 5.20%—due May 1, 2001.....	11,600	11,600
Series 8.00%—due December 15, 2001.....	—	3,000
Series 9.83%—due June 15, 2019.....	5,000	5,000
Series 6.10%—due December 1, 2022.....	5,000	5,000
Series 8.19%—due December 1, 2022.....	10,000	10,000
Series 5.85%—due September 1, 2025.....	18,000	18,000
Series 5.05%—due July 15, 2028.....	40,000	40,000
Total.....	89,600	92,600
Medium Term Notes—		
Series 5.99%—due February 1, 2009.....	35,000	—
Series 6.61%—due February 1, 2019.....	45,000	—
Total.....	80,000	—
Total long-term debt of IWC Resources Corporation.....	199,437	112,200
NiSource Capital Markets, Inc.:		
Subordinated Debentures—Series A, 7½%, due March 31, 2026.....	75,000	75,000
Senior Notes Payable—6.78%, due December 1, 2027.....	75,000	75,000
Medium-term notes—		
Issued at interest rates between 7.38% and 7.99%, with a weighted average interest rate of 7.66% and various maturities between April 1, 2004 and May 5, 2027.....	300,000	300,000
Total long-term debt of NiSource Capital Markets, Inc.....	450,000	450,000
NiSource Development Company, Inc.:		
Lake Erie Land Company—Notes Payable—9.00%—due July 7, 2004.....	—	2,533
NDC Douglas Properties, Inc.—Notes Payable—		
Interest rates between 6.72% and 8.38% with a weighted average interest rate of 7.88% and maturities through January 1, 2008.....	21,244	25,274
Total long-term debt of NiSource Development Company, Inc.....	21,244	27,807
EnergyUSA, Inc.:		
EnergyUSA-TPC Corp.:		
Notes Payable—		
Interest rates between 7.00% and 12.00% with a weighted average interest rate of 10.08% and various maturities between September 6, 2003 and February 6, 2010.....	1,224	—
EnergyUSA, Inc. (MA):		
Notes payable—6.12%.....	3,033	—
Market Hub Partners, L.P.:		
Notes Payable—		
Interest rates of 10.34% and 8.25% with a weighted average interest rate of 8.74% and maturities of December 31, 2001 and March, 1, 2008.....	150,000	—
Total long-term debt of EnergyUSA, Inc.....	154,257	—
Bay State Gas Company:		
Medium Term Notes—		
Interest rates between 6.00% and 9.20% with a weighted average interest rate of 6.96% and maturities between January 30, 2001 and February 15, 2028.....	183,500	—
Northern Utilities:		
Revolving Credit Agreement—due March 17, 2001.....	25,000	—
Medium Term Notes—Interest rates of 6.93% and 9.70% with a weighted average interest rate of 6.91% and maturities of September 1, 2010 and September 1, 2031.....	21,333	—
Long-term debt of Bay State Gas Company.....	229,833	—
Total long-term debt, excluding amount due within one year.....	\$1,975,184	\$1,667,965

The accompanying notes to consolidated financial statements are an integral part of this statement.

CONSOLIDATED STATEMENT OF COMMON SHAREHOLDERS' EQUITY

Bay State Gas Company

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	Dollars in Thousands						
	Common Shares	Treasury Shares	Additional Paid-in Capital	Retained Earnings	Other	Accum. Other Comp. Income	Comp. Income
Balance, January 1, 1997	\$870,930	\$(392,995)	\$ 32,868	\$591,370	\$(4,280)	\$2,608	\$1,100,501
Comprehensive Income							
Net income				190,849			190,849
Other comprehensive income, net of tax:							
Gain/loss on available for sale securities:							
Unrealized gain (net of income tax of \$1,033)						1,689	1,689
Gain (loss) on foreign currency translation:							
Unrealized						(1,430)	(1,430)
Total Comprehensive Income							\$191,108
Dividends:							
Common shares				(114,303)			(114,303)
Treasury shares acquired		(133,073)	1				(133,072)
Issued:							
Employee stock purchase plan		273	424				697
Long-term incentive plan		5,329	116		(443)		5,002
IWC Resources Corporation acquisition		152,405	55,007				207,412
Acquisition of minority interest		4,118	1,351				5,469
Amortization of unearned compensation					2,099		2,099
Other			1	(126)			(125)
Balance, December 31, 1997	\$870,930	\$(363,943)	\$ 89,768	\$667,790	\$(2,624)	\$2,867	\$1,264,788
Comprehensive Income							
Net income				193,886			193,886
Other comprehensive income, net of tax:							
Gain/loss on available for sale securities:							
Unrealized gain (net of income tax of \$873)						1,429	1,429
Realized gain (net of income tax of \$1,340)						(2,195)	(2,195)
Gain (loss) on foreign currency translation:							
Unrealized						(1,157)	(1,157)
Realized						186	186
Total Comprehensive Income							\$192,149
Dividends:							
Common shares				(116,596)			(116,596)
Treasury shares acquired		(203,976)	2				(203,974)
Issued:							
Employee stock purchase plan		341	889				1,230
Long-term incentive plan		8,551	575		(1,084)		8,042
Amortization of unearned compensation					1,893		1,893
Other			2,947	(771)			2,176
Balance, December 31, 1998	\$870,930	\$(559,027)	\$ 94,181	\$744,309	\$(1,815)	\$1,130	\$1,149,708
Comprehensive Income							
Net income				160,414			160,414
Other comprehensive income, net of tax:							
Gain/loss on available for sale securities:							
Unrealized (net of income tax of \$1,064)						1,741	1,741
Realized (net of income tax of \$445)						728	728
Gain/loss on foreign currency translation:							
Unrealized						645	645
Realized						942	942
Total Comprehensive Income							\$164,470
Dividends:							
Common shares				(129,144)			(129,144)
Treasury shares acquired		(126,455)					(126,455)
Issued:							
Employee stock purchase plan		473	1,084				1,557
Long-term incentive plan		3,853	188		(571)		3,470
Other acquisitions		2,722	939				3,661
Bay State Gas acquisition		205,881	109,753				315,634
Amortization of unearned compensation					3,497		3,497
Equity contract costs			(34,001)				(34,001)
Other			2,261	(1,154)			1,107
Balance, December 31, 1999	\$870,930	\$(472,553)	\$174,405	\$774,425	\$1,111	\$5,186	\$1,353,504

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CONSOLIDATED STATEMENT OF COMMON SHAREHOLDERS' EQUITY

	Common Shares*	Treasury Shares*
Balance, January 1, 1997	147,784,218	(28,172,896)
Treasury shares acquired		(6,536,928)
Issued:		
Employee stock purchase plan		34,376
Long-term incentive plan		353,066
IWC Resources Corporation acquisition		10,580,764
Acquisition of minority interest		270,064
Amortization of unearned compensation		
Other		
Balance, December 31, 1997	147,784,218	(23,471,554)
Treasury shares acquired		(7,309,906)
Issued:		
Employee stock purchase plan		42,796
Long-term incentive plan		485,144
Amortization of unearned compensation		
Other		
Balance, December 31, 1998	147,784,218	(30,253,520)
Treasury shares acquired		(4,821,253)
Issued:		
Employee stock purchase plan		59,475
Long-term incentive plan		194,208
Other acquisitions		134,453
Bay State Gas acquisition		11,041,811
Amortization of unearned compensation		
Equity contract costs		
Other		
Balance, December 31, 1999	147,784,218	(23,644,826)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HOLDING COMPANY STRUCTURE

NiSource Inc. (NiSource), formerly NIPSCO Industries Inc., is an energy and utility-based holding company headquartered in Merrillville, Indiana that provides natural gas, electricity and water to the public for residential, commercial and industrial uses. NiSource was organized as an Indiana holding company in 1987 under the name NIPSCO Industries Inc., and changed its name to NiSource Inc. on April 14, 1999 to reflect its new direction as a multi-state supplier of energy and water resources and related services.

NiSource's gas business is comprised primarily of regulated gas utilities that operate throughout northern Indiana and New England. In addition, NiSource expanded its gas marketing, trading and storage operations with the April 1999 acquisition of TPC Corporation, now renamed EnergyUSA-TPC Corp. (TPC). NiSource's electric business is comprised of a regulated electric utility that operates in northern Indiana. The electric business also includes wholesale sales and power trading activities. NiSource's regulated gas and electric subsidiaries are collectively referred to as the "Energy Utilities." NiSource's regulated water subsidiaries are collectively called the "Water Utilities." Collectively the Energy and Water Utilities are referred to as the "Utilities."

The Utilities are subject to regulation with respect to rates, accounting and certain other matters by the Indiana Utility Regulatory Commission (IURC), the

Massachusetts Department of Telecommunications and Energy (MDTE), the New Hampshire Public Utilities Commission (NHPUC), the Maine Public Utilities Commission (MEPUC) and the Federal Energy Regulatory Commission (FERC), collectively called the "Commissions." Market Hub Partners, L.P., which is a subsidiary of TPC Gas Storage Services L.P., is subject to regulation by the Texas Railroad Commission and FERC.

Non-regulated energy and utility-related products and services are provided through the "Products and Services" subsidiaries. Products and Services subsidiaries perform energy-related services and offer products in connection with these services, which include pipeline construction, repair and maintenance of underground gas pipelines and locating and marking utility lines.

In addition to the Utilities and the Products and Services subsidiaries, NiSource has a wholly-owned subsidiary, NiSource Capital Markets, Inc. (Capital Markets), which engages in financing activities for NiSource and certain of its subsidiaries, excluding Northern Indiana Public Service Company (Northern Indiana).

Announcement of Merger Agreement with Columbia Energy Group

In June 1999, NiSource commenced a tender offer to acquire CEG. In December 1999, CEG acknowledged preliminary indications of interest from numerous other third parties and invited formal bids from those companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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that had indicated a preliminary value higher than the NiSource tender offer price of \$74 per share. As a result, in December, NiSource wrote off the costs associated with its tender offer. On February 11, 2000, the NiSource tender offer expired.

On February 28, 2000, after completion of the bidding process initiated by CEG, NiSource and CEG announced approval of a merger agreement under which NiSource will form a new holding company, which will acquire all of the outstanding shares of CEG valued at approximately \$6 billion. The new holding company will also assume approximately \$2.5 billion of CEG debt. Under the agreement, CEG shareholders have the option to receive new holding company stock for up to 30% of the outstanding CEG shares. Under the common stock option, each CEG share will be exchanged for \$74 in new holding company stock, based on the average NiSource share price prior to the closing, but not more than 4.4848 shares of new holding company stock for each CEG share. Under the cash option, each CEG share will be exchanged for \$70 in cash plus a \$2.60 face value unit (consisting of a zero coupon debt security with a forward

equity contract). A commitment letter was accepted under which certain financial institutions agreed, under specified conditions, to provide up to \$6.0 billion to finance the acquisition of CEG. The merger is conditioned upon, among other things, the approvals of the shareholders of both companies and various regulatory commissions. If NiSource shareholder approval is not obtained, the merger agreement provides that the transaction will automatically be restructured to eliminate the 30% common stock option for CEG shareholders.

CEG, based in Herndon, Va., is one of the nation's leading energy services companies, with assets of approximately \$7 billion. Its operating companies engage in virtually all phases of the natural gas business, including exploration and production, transmission, storage and distribution, as well as propane and petroleum product sales, electric power generation and retail energy marketing. CEG sells natural gas to about 2 million customers in Kentucky, Maryland, Ohio, Pennsylvania and Virginia. It owns 16,500 miles of interstate gas pipelines that run from Louisiana to the Northeast.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of NiSource and its majority-owned subsidiaries after the elimination of significant intercompany accounts and transactions. Investments for which at least a 20% interest is owned and certain joint ventures are accounted for under the equity method. Investments with less than a 20% interest are accounted for under the cost method. Certain reclassifications were made to conform the prior years' financial statements to the current presentation.

On February 12, 1999, NiSource acquired Bay State Gas Company (BSG) and its subsidiaries. Accordingly, the consolidated financial statements and disclosures include operating results from BSG from the date of acquisition through December 31, 1999.

On April 1, 1999, NiSource acquired the stock of TPC. As a result of the TPC acquisition, NiSource indirectly owned a 77.3% equity interest in Market Hub Partners, L.P. (MHP), which stores natural gas in salt caverns. In the fourth quarter of 1999 NiSource acquired the remaining interests in MHP. The consolidated financial statements and disclosures include operating results of TPC from the date of acquisition through December 31, 1999.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operating Revenues

Except as discussed below, revenues are recorded as products and services are delivered. However, utility revenues are billed to customers monthly on a cycle basis. Effective January 1, 1999, revenues relating to energy trading operations are recorded based upon changes in the fair values, net of reserves, of the related energy trading contracts. Construction revenues are recognized on the percentage of completion method whereby revenues are recognized in proportion to costs incurred over the life of each project. Provisions for losses on construction contracts, if any, are recorded in the period in which such losses become probable.

Depreciation and Maintenance

The Utilities provide depreciation on a straight-line method over the remaining service lives of the electric, gas, water and common properties. The approximate weighted average remaining lives for major components of electric, gas, and water plant are as follows:

Electric:

Electric generation plant	24 years
Transmission plant	26 years
Distribution plant	25 years
Other electric plant	24 years

Gas:

Gas storage plant	15 years
Transmission plant	18 years
Distribution plant	34 years
Other gas plant	16 years

Water:

Water source and treatment plant	34 years
Distribution plant	68 years
Other water plant	13 years

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The depreciation provisions for utility plant, as a percentage of the original cost, for the period ended December 31, 1999, 1998 and 1997 were as follows:

	1999	1998	1997
Electric.....	3.7%	3.7%	3.6%
Gas.....	4.4%	5.1%	5.1%
Water.....	2.1%	2.1%	2.1%

The Utilities follow the practice of charging maintenance and repairs, including the cost of removal of minor items of property, to expense as incurred. When property that represents a retired unit is replaced or removed, the cost of such property is credited to utility plant, and such cost, together with the cost of removal less salvage, is charged to the accumulated provision for depreciation.

Amortization of Software Costs

External and incremental internal costs associated with computer software developed for internal use are capitalized. Capitalization of such costs commences upon the completion of the preliminary stage of the project. Once the installed software is ready for its intended use, such capitalized costs are amortized on a straight-line basis over a period of five to ten years which the FERC prescribes as reasonable useful life estimates for capitalized software.

Plant Acquisition Adjustments

Net utility plant includes amounts allocated to utility plant in excess of the original cost as part of the purchase price allocation associated with the acquisition of utility businesses, net of accumulated amortization. Net plant acquisition adjustments were \$722.8 million and \$185.4 million at December 31, 1999 and December 31, 1998, respectively, and are being amortized over forty-year periods from the respective dates of acquisition.

Intangible Assets

The excess of cost over the fair value of the net assets of non-utility businesses acquired is recorded as goodwill. Goodwill of \$125.7 million and \$61.9 million at December 31, 1999 and December 31, 1998, respectively, is being amortized over a weighted average period of 27 years. Other intangible assets, approximating \$12.8 million and \$7.7 million at December 31, 1999 and December 31, 1998, respectively, are being amortized over periods of four to eight years. The recoverability of intangible assets is assessed on a periodic basis to confirm that expected future cash flows will be sufficient to support the recorded intangible assets. Accumulated amortization of intangible assets at December 31, 1999 and December 31, 1998 was approximately \$9.9 million and \$4.6 million, respectively.

Coal Reserves

The costs of reserves under a long-term mining contract to mine coal reserves through the year 2001 are being recovered through the rate-making process as such coal reserves are used to produce electricity.

Accounts Receivable

At December 31, 1999, \$100.0 million of accounts receivable had been sold under a sales agreement, which expires on May 31, 2002.

Customer Advances and Contributions in Aid of Construction

Certain developers install and provide for the installation of water main extensions, which will be transferred to IWC upon completion. The cost of the main extensions and the amount of any funds advanced for the cost of water mains installed are included in customer advances for construction and are generally refundable to the customer over a period of ten years. Advances not refunded within ten years are permanently transferred to contributions in aid of construction.

Comprehensive Income

Comprehensive income is reported in the consolidated statements of common shareholders' equity. The components of accumulated other comprehensive income include unrealized gains (losses), net of income taxes, on available for sale securities ("securities") and on foreign currency translation adjustments ("foreign currency"). The accumulated amounts for these components are as follows:

	Jan. 1, 1997	Dec. 31, 1997	Dec. 31, 1998	Dec. 31, 1999
	(In millions)			
Securities.....	\$ 2.7	\$ 4.5	\$ 3.6	\$ 6.1
Foreign currency...	\$(0.1)	\$(1.6)	\$(2.5)	\$(0.9)

Statement of Cash Flows

Temporary cash investments with an original maturity of three months or less are considered to be cash equivalents.

Cash paid during the periods reported for income taxes and interest was as follows:

	1999	1998	1997
	(In thousands)		
Income taxes.....	\$115,992	\$127,713	\$116,849
Interest, net of amounts capitalized	160,046	118,079	102,361

Fuel Adjustment Clause

All metered electric rates contain a provision for adjustment in charges for electric energy to reflect increases and decreases in the cost of fuel and the fuel cost of purchased power through operation of a fuel adjustment clause. As prescribed by order of the IURC applicable to metered retail rates, the adjustment factor has been calculated based on the estimated cost of fuel and the fuel cost of purchased power in a future three-month period. If two statutory requirements relating to expense and return levels are satisfied, any under-recovery or over-recovery caused by variances between estimated and

actual cost in a given three-month period will be included in a future filing. Northern Indiana records any under-recovery or over-recovery as a current asset or current liability until such time as it is billed or refunded to its customers. The fuel adjustment factor is subject to a quarterly hearing by the IURC and remains in effect for a three-month period.

On August 18, 1999, the IURC issued a generic order which established new guidelines for the recovery of purchased power costs through fuel adjustment clauses. The IURC ruled that each utility had to establish a "benchmark" which is the utility's highest on-system fuel cost per kilowatt-hour (kwh) during the most recent annual period. The IURC stated that if the weekly average of a utility's purchased power costs were less than the "benchmark," these costs per kwh should be considered net energy costs which are presumed "fuel costs included in purchased power." If the weekly average of a utility's purchased power costs exceeded the "benchmark," the utility would need to submit additional evidence demonstrating the reasonableness of these costs. The Office of Utility Consumer Counselor (OUCC) has appealed the August 18 order to the Indiana Court of Appeals.

Gas Cost Adjustment Clause

All metered gas sales rates contain an adjustment factor, which reflects the increases and decreases in the cost of purchased gas, contracted gas storage and storage transportation charges. Each gas cost adjustment factor is subject to a monthly, quarterly, semi-annual or annual hearing by the state Commissions and remains in effect for a one-month, three-month, six-month or twelve-month period. On August 11, 1999, the IURC approved a flexible gas cost adjustment mechanism for Northern Indiana. Under the new procedure, the demand component of the adjustment factor will be determined, after hearings and IURC approval, and made effective on November 1 of each year. The demand component will remain in effect for one year until a new demand component is approved by the IURC. The commodity component of the adjustment factor will be determined by monthly filings, which will become effective on the first day of each calendar month, subject to refund. The monthly filings do not require IURC approval but will be reviewed by the IURC during the annual hearing that will take place regarding the demand component filing.

If the statutory requirement relating to the level of return for the gas utilities is satisfied, any under-recovery or over-recovery caused by variances between estimated and actual cost in a given one-month, three-month, six-month or twelve-month period will be included in a future filing. Any under-recovery or over-recovery is recorded as a current asset or current liability until such time it is billed or refunded to customers.

Northern Indiana's gas cost adjustment factor includes a gas cost incentive mechanism (GCIM) which allows the sharing of any cost savings or cost increases with customers based on a comparison of actual gas supply port-

folio cost to a market-based benchmark price.

Natural Gas in Storage

Both the last-in, first-out (LIFO) inventory methodology and the weighted average methodology are used to value natural gas in storage. Based on the average cost of gas purchased under the LIFO method in December 1999 and December 1998, the estimated replacement cost of gas in storage (current and non-current) at December 31, 1999 and December 31, 1998 exceeded the stated LIFO cost by \$48.9 million and \$33.7 million, respectively. Inventory valued using LIFO was \$23.0 million and \$50.8 million at December 31, 1999 and December 31, 1998, respectively. Inventory valued using the weighted average methodology was \$40.8 million and \$18.8 million at December 31, 1999 and December 31, 1998, respectively.

Accounting for Price Risk Management Activities

NiSource is exposed to commodity price risk in its natural gas and electric operations. A variety of commodity-based derivative financial instruments are utilized to reduce this price risk. When these derivatives are used to reduce price risk in non-trading operations such as activities in gas supply for regulated gas utilities, certain customer choice programs for residential customers and other retail customer activity, gains and losses on these derivative financial instruments are deferred as assets and liabilities and are recognized in earnings concurrent with the disposition of the underlying physical commodity. In certain circumstances, a derivative financial instrument will serve to hedge the acquisition cost of natural gas injected into storage. In this situation, the gain or loss on the derivative financial instrument is deferred as part of the cost basis of gas in storage and recognized upon the ultimate disposition of the gas. If a derivative financial instrument contract is terminated early because it is probable that a transaction or forecasted transaction will not occur, any gain or loss as of such date is immediately recognized in earnings. If a derivative financial instrument is terminated for other economic reasons, any gains or losses as of the termination date is deferred and recorded when the associated transaction or forecasted transaction affects earnings.

NiSource also uses derivative financial instruments in connection with trading activities at its power trading and certain gas marketing and trading operations. These derivatives, along with the related physical contracts, are recorded at fair value pursuant to Emerging Issues Task Force (EITF) Issue No. 98-10, "Accounting for Energy Trading and Risk Management Activities." Because the majority of our trading activities started in 1999, the impact of adopting EITF Issue No. 98-10 on January 1, 1999, was insignificant. Transactions related to utility system load management do not qualify as a trading activity under EITF Issue No. 98-10 and are accounted for on an accrual basis. NiSource refers to this activity as Power Marketing.

Impact of Accounting Standards

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," in June 1998 and SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133" in June 1999. Statement No. 133 standardizes the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, by requiring that a company recognize those items as assets or liabilities in the balance sheet and measure them at fair value. The standard also suggests in certain circumstances commodity based contracts may qualify as derivatives. Special accounting within this Statement generally provides for matching of the timing of gain or loss recognition of derivative instruments qualifying as a hedge with the recognition of changes in the fair value of the hedged asset or liability through earnings, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment. The Statement also provides that the effective portion of a hedging instrument's gain or loss on a forecasted transaction be initially reported in other comprehensive income and subsequently reclassified into earnings when the hedged forecasted transaction affects earnings. Unless those specific hedge accounting criteria are met, SFAS No. 133 requires that changes in derivatives' fair value be recognized currently in earnings.

SFAS No. 133, as amended by SFAS No. 137, is not effective for NiSource until January 1, 2001. SFAS No. 133 must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts. With respect to hybrid instruments, a company may elect to apply SFAS No. 133, as amended, to (1) all hybrid instruments, (2) only those hybrid instruments that were issued, acquired or substantively modified after December 31, 1997, or (3) only those hybrid instruments that were issued, acquired or substantively modified after December 31, 1998.

NiSource anticipates adopting SFAS No. 133 on January 1, 2001, but has not yet determined the impact or method of adoption. The fair value of derivatives used in price risk management are described in "Risk Management Activities."

The fair value of these derivatives would be recognized as assets or liabilities on the balance sheet consistent with the current accounting treatment for certain freestanding derivatives. NiSource has not yet quantified the other effects of adopting SFAS No. 133 on its financial statements. However, the Statement could increase volatility in earnings and other comprehensive income.

Regulatory Assets

The Utilities' operations are subject to the regulation of the appropriate state commission and, in the case of the Energy Utilities, the FERC. Accordingly, the Utilities' accounting policies are subject to the provisions of SFAS

No. 71, "Accounting for the Effects of Certain Types of Regulation." The Utilities monitor changes in market and regulatory conditions and the resulting impact of such changes in order to continue to apply the provisions of SFAS No. 71 to some or all of their operations. As of December 31, 1999 and December 31, 1998, the regulatory assets identified below represent probable future revenues to the Utilities as these costs are recovered through the rate-making process. If a portion of the Utilities' operations becomes no longer subject to the provisions of SFAS No. 71, a write-off of certain regulatory assets might be required, unless some form of transition cost recovery is established by the appropriate regulatory body which would meet the requirements under generally accepted accounting principles for continued accounting as regulatory assets during such recovery period. Regulatory assets were comprised of the following items:

	December 31, 1999	December 31, 1998
	(In thousands)	
Unamortized reacquisition premium on debt (See Long-Term Debt note).....	\$ 39,719	\$ 43,233
Unamortized R. M. Schahfer Unit 17 and Unit 18 carrying charges and deferred depreciation.....	58,111	62,329
Bailly scrubber carrying charges and deferred depreciation.....	8,010	8,945
Deferral of SFAS No. 106 expense not recovered (See Postretirement Benefits note).....	75,527	81,339
FERC Order No. 636 transition costs.....	13,728	22,093
Regulatory income tax asset, net.....	24,941	18,793
Other.....	12,843	4,936
	<u>232,879</u>	<u>241,668</u>
Less: Current portion of regulatory assets.....	24,245	32,609
	<u>\$208,634</u>	<u>\$209,059</u>

Carrying Charges and Deferred Depreciation

Upon completion of R. M. Schahfer Units 17 and 18, Northern Indiana capitalized the carrying charges and deferred depreciation in accordance with orders of the IURC until the cost of each unit was allowed in rates. Such carrying charges and deferred depreciation are being amortized over the remaining life of each unit.

Northern Indiana has capitalized carrying charges and deferred depreciation and certain operating expenses relating to its scrubber service agreement for its Bailly Generating Station in accordance with an order of the IURC. The accumulated balance of the deferred costs and related carrying charges is being amortized over the remaining life of the scrubber service agreement.

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Foreign Currency Translation

Translation gains or losses are based upon the end-of-period exchange rate and are recorded as a separate component of other comprehensive income reflected in the Consolidated Statement of Shareholders' Equity.

Investments In Real Estate

A series of affordable housing projects are held as investments and accounted for using the equity method. These investments include certain tax benefits, including low-income housing tax credits and tax deductions for operating losses of the housing projects. Investments, at equity, include \$33.3 million and \$34.0 million relating to affordable housing projects at December 31, 1999 and December 31, 1998, respectively.

Income Taxes

The liability method of accounting is used for income taxes under which deferred income taxes are recognized, at currently enacted income tax rates, to reflect the tax effect of temporary differences between the book and tax bases of assets and liabilities. Deferred investment tax credits are being amortized over the life of the related property.

Acquisitions

On February 12, 1999, the acquisition of BSG was completed for approximately \$560.1 million in cash and NiSource common shares. The \$237.7 million cash portion was partially financed by the issuance of Corporate Premium Income Equity Securities (Corporate PIES) and partially financed by the issuance of the Puttable Reset Securities (PURS). The acquisition was accounted for as a purchase, and the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values. The accompanying financial statements reflect the allocation of the purchase price.

Assets acquired and liabilities assumed in the acquisition of BSG were comprised of the following:

(In thousands)

Assets acquired:

Utility plant, net of accumulated depreciation	\$1,086,008
Intangible assets	17,443
Other current assets	177,148
Other noncurrent assets	75,126
	<u>1,355,725</u>

Less liabilities assumed:

Long-term debt	244,337
Short-term debt	100,295
Other current liabilities	122,408
Deferred taxes	299,710
Other noncurrent liabilities	28,866
	<u>795,616</u>

Net assets acquired

\$ 560,109

On a pro forma basis, NiSource's consolidated results of operations for the twelve months ended December 31, 1999, including BSG, would have been:

(In thousands)	UNAUDITED	
	Twelve Months December 31, 1999	Twelve Months December 31, 1998
Operating revenue	\$3,218,730	\$3,364,513
Operating income	\$ 469,386	\$ 423,277
Net income	\$ 164,868	\$ 179,922

Pro forma adjustments primarily reflect adjustments for the addition of the plant acquisition adjustment and intangible assets, the issuance of the applicable Corporate PIES and additional income taxes, as if the acquisition had occurred on January 1, 1999 and 1998 for the twelve month results.

On April 1, 1999, NiSource acquired the stock of TPC, a Houston-based natural gas marketing and storage company, for approximately \$150 million in cash. The acquisition was accounted for as a purchase, with the purchase price allocated to the assets and liabilities acquired based on their estimated fair values. As a result of the TPC acquisition, NiSource had an indirect investment in the amount of \$126.0 million, representing a 77.3% interest in MHP. During the fourth quarter of 1999, NiSource purchased the remaining interests in MHP. The accompanying financial statements reflect the preliminary allocation of the purchase price. Assets acquired and liabilities assumed in the acquisition of TPC and MHP were comprised of the following:

(In thousands)

Assets acquired:

Other property, at cost	\$320,048
Intangible assets	45,779
Other current assets	116,503
Other noncurrent assets	7,154
	<u>489,484</u>

Less Liabilities assumed:

Long-term debt	151,462
Short-term debt	165
Other current liabilities	88,622
Deferred taxes	40,843
Other noncurrent liabilities	18,471
	<u>299,563</u>

Net assets acquired

\$189,921

NESI ENERGY MARKETING CANADA LTD. LITIGATION

On October 31, 1996, NiSource's subsidiary NiSource Energy Services Canada Ltd. (NESI Canada) acquired 70% of the outstanding shares of Chandler Energy Inc., a gas marketing and trading company located in Calgary, Alberta, and subsequently renamed it NESI Energy Marketing Canada Ltd. (NEMC). Between November 1 and November 27, 1996, gas prices in the Calgary market increased dramatically. As a result, NEMC was selling gas, pursuant to contracts entered into prior to the acquisition date, at prices substantially below its costs to acquire such gas. On November 27, 1996, NEMC ceased doing business and sought protection from its creditors under the Companies' Creditors Arrangement Act, a Canadian corporate reorganization statute. NEMC was declared bankrupt as of December 12, 1996.

Certain creditors of NEMC have filed claims in the Canadian courts against NiSource, Capital Markets, NI Energy Services, Inc. and NESI Canada, alleging certain misrepresentations relating to NEMC's financial condition and claiming damages. In addition, certain creditors of NEMC have, through the Canadian bankruptcy court, asserted fraudulent transfer and other claims against NiSource, Capital Markets, NI Energy Services, Inc., NESI Canada and the directors of NEMC. NiSource intends to vigorously defend against such claims and any other claims seeking to assert that any party other than NEMC is responsible for NEMC's liabilities. Management believes that any loss relating to NEMC will not be material to the financial position or results of operations of NiSource.

ENVIRONMENTAL MATTERS

General

The operations of NiSource are subject to extensive and evolving federal, state and local environmental laws and regulations intended to protect public health and the environment. Such environmental laws and regulation affect operations as they relate to impacts on air, water and land.

Superfund

Because several NiSource subsidiaries are a "potentially responsible party" (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) at several waste disposal sites, as well as at former manufactured-gas plant sites which it, or its corporate predecessors, own or owned or operated, it may be required to share in the cost of clean up of such sites. A program was instituted to investigate former manufactured-gas plant sites where it is the current or former owner, which investigation has identified forty-six such sites. Initial sampling has been conducted at thirty sites. Investigation activities have been completed at twenty-three sites and remedial measures have been selected or implemented at sixteen sites. NiSource intends to continue to evaluate its facilities and properties with respect to environmental laws and regulations and take any required corrective action.

In an effort to recover a portion of the costs related to the former manufactured gas plants, various companies that provided insurance coverage which NiSource believed covered costs related to former manufactured-gas plant sites were approached. Northern Indiana filed claims in Indiana state court against various insurance companies, seeking coverage for costs associated with several manufactured-gas plant sites and damages for alleged misconduct by some of the insurance companies. Settlements have been reached with all insurance companies. Additionally, agreements have been reached with other Indiana utilities relating to cost sharing and man-

agement of the investigation and remediation of several former manufactured-gas plant sites at which Northern Indiana and such utilities or their predecessors were operators or owners.

BSG and Northern Utilities, Inc. have rate recovery for environmental response costs in Maine, Massachusetts and New Hampshire. The rate treatment allows for the recovery of 100% of prudently incurred costs for investigation and remediation over a 5-7 year period from date of payment. Recoveries from third parties or insurance companies in Maine and Massachusetts are allocated 50% to rate payers and 50% to shareholders. In New Hampshire 100% of any recoveries from third parties or insurance companies are returned to rate payers.

As of December 31, 1999, a reserve of approximately \$23.8 million has been recorded to cover probable corrective actions. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, the number of other PRPs and their financial viability, the extent of corrective actions required and rate recovery. Based upon investigations and management's understanding of current environmental laws and regulations, NiSource believes that any corrective actions required, after consideration of insurance coverages, contributions from other PRPs and rate recovery, will not have a material effect on its financial position or results of operations.

Clean Air Act

The Clean Air Act Amendments of 1990 (CAAA) imposed limits to control acid rain on the emission of sulfur dioxide and nitrogen oxides (NOx) which become fully effective in 2000. All of NiSource's facilities are already in compliance with the sulfur dioxide limits. NiSource has already taken most of the steps necessary to meet the NOx limits.

The CAAA also contain other provisions that could lead to limitations on emissions of hazardous air pollutants

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and other air pollutants (including NO_x as discussed below), which may require significant capital expenditures for control of these emissions. Until specific rules have been issued that affect NiSource's facilities, what these requirements will be or the costs of complying with these potential requirements cannot be predicted.

Nitrogen Oxides

During 1998, the Environmental Protection Agency (EPA) issued a final rule, the NO_x State Implementation Plan (SIP) call, requiring certain states, including Indiana, to reduce NO_x levels from several sources, including industrial and utility boilers. The EPA stated that the intent of the rule is to lower regional transport of ozone impacting other states' ability to attain the federal ozone standard. According to the rule, the State of Indiana must issue regulations implementing the control program. The State of Indiana, as well as some other states, filed a legal challenge in December 1998 to the EPA NO_x SIP call rule. Lawsuits have also been filed against the rule by various groups, including utilities. On May 25, 1999, the D.C. Circuit Court of Appeals issued an order staying the NO_x SIP call rule's September 30, 1999 deadline for the state submittals until further order of the court. Any resulting NO_x emission limitations could be more restrictive than those imposed on electric utilities under the CAAA's acid rain NO_x reduction program described above. NiSource is evaluating the EPA's final rule and any potential requirements that could result from the final rule as implemented by the State of Indiana. NiSource believes that the costs relating to compliance with the new standards may be substantial, but such costs depend upon the outcome of the current litigation and the ultimate control program agreed to by the targeted states and the EPA. Northern Indiana is continuing its programs to reduce NO_x emissions and NiSource will continue to closely monitor developments in this area.

In a related matter to EPA's NO_x SIP call, several Northeastern states have filed petitions with the EPA under Section 126 of the Clean Air Act. The petitions allege harm and request relief from sources of emissions in the Midwest that allegedly cause or contribute to ozone nonattainment in their states. NiSource is monitoring EPA's decisions on these petitions and existing litigation to determine the impact of these developments on Northern Indiana's programs to reduce NO_x emissions.

The EPA issued final rules revising the National Ambient Air Quality Standards for ozone and particulate matter in July 1997. On May 14, 1999, the United States Court of Appeals for the D.C. Circuit remanded the new rules for both ozone and particulate matters to the EPA. Once rectified, the revised standards could require additional reductions in sulfur dioxide, particulate matter and NO_x emissions from coal-fired boilers (including Northern Indiana's generating stations) beyond measures discussed above. Final implementation methods will be set by the EPA as well as state regulatory authorities. NiSource believes that the costs relating to compliance with any new limits may be substantial but are dependent upon the ultimate control program agreed to by the

targeted states and the EPA. NiSource will continue to closely monitor developments in this area and anticipates the exact nature of the impact of the new limits on its operations will not be known for some time.

In a letter dated September 15, 1999, the Attorney General of the State of New York alleged that Northern Indiana violated the Clean Air Act by constructing a major modification of one of its electric generating stations without obtaining pre-construction permits required by the Prevention of Significant Deterioration (PSD) program. The major modification allegedly took place at the R. M. Schahfer Station when, "in approximately 1995-1997, Northern Indiana upgraded the coal handling system at Unit 14 at the plant." While Northern Indiana is investigating these allegations, Northern Indiana does not believe that the modifications required pre-construction review under the PSD program and believes that all appropriate permits were acquired.

Carbon Dioxide

Initiatives are being discussed both in the United States and worldwide to reduce so-called "greenhouse gases" such as carbon dioxide and other by-products of burning fossil fuels. Reduction of such emissions could result in significant capital outlays or operating expenses to NiSource.

Clean Water Act and Related Matters

NiSource's wastewater and water operations are subject to pollution control and water quality control regulations, including those issued by the EPA and the States of Indiana, Louisiana, Massachusetts and Texas.

Under the Federal Clean Water Act and state regulations, NiSource must obtain National Pollutant Discharge Elimination System permits for water discharges from various facilities, including electric generating and water treatment stations and a propane plant. These facilities either have permits for their water discharge or they have applied for a permit renewal of any expiring permits. These permits continue in effect pending review of the current applications.

Under the Federal Safe Drinking Water Act (SDWA), the Water Utilities are subject to regulation by the EPA for the quality of water sold and treatment techniques used to make the water potable. The EPA promulgates nationally-applicable maximum contaminant levels (MCLs) for contaminants found in drinking water. Management believes that the Water Utilities are currently in compliance with all MCLs promulgated to date. The EPA has continuing authority, however, to issue additional regulations under the SDWA. In August 1996, Congress amended the SDWA to allow the EPA more authority to weigh the costs and benefits of regulations being considered in some, but not all, cases. In December 1998, EPA promulgated two National Primary Drinking Water rules, the Interim Enhanced Surface Water Treatment Rule and the Disinfectants and Disinfection Byproducts Rule. The Water Utilities must comply with these rules by December 2001. Management does not believe that significant changes will be required for the Water Utilities' operations to comply with these rules; however, some

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cost expenditures for equipment modifications or enhancements may be necessary to comply with the Interim Enhanced Surface Water Treatment Rule. Additional rules are anticipated to be promulgated under the 1996 amendments. Compliance with such rules could be costly and could require substantial changes in the Water Utilities' operations.

Under a 1991 law enacted by the Indiana legislature, a water utility may petition the IURC for prior approval of its plans and estimated expenditures required to comply with the provisions of, and regulations under, the Federal Clean Water Act and SDWA. Upon obtaining such approval, a water utility may include such costs in its rate

base for rate-making purposes, to the extent of its estimated costs as approved by the IURC, and recover its costs of developing and implementing the approved plans if statutory standards are met. The capital costs for such new systems, equipment or facilities or modifications of existing facilities may be included in a water utility's rate base upon completion of construction of the project or any part thereof. Such an addition to rate base, however, would effect a change in water rates. NiSource's principal water utility, IWC, has agreed to a moratorium on water rate increases until 2002. Therefore, recovery of any increased costs discussed above may not be timely.

INCOME TAXES

Deferred income taxes are recognized as costs in the rate-making process by the Commissions having jurisdiction over the rates charged by the Utilities. Deferred income taxes are provided as a result of provisions in the income tax law that either require or permit certain items to be reported on the income tax return in a different period than they are reported in the consolidated financial statements. These taxes are reversed by a debit or credit to deferred income tax expense as the temporary differences reverse. Investment tax credits have been deferred and are being amortized to income over the life of the related property.

To the extent certain deferred income taxes of the Utilities are recoverable or payable through future rates, regulatory assets and liabilities have been established.

Regulatory assets are primarily attributable to undepreciated allowance for funds used during construction-equity (AFUDC) and the cumulative net amount of other income tax timing differences for which deferred taxes had not been provided in the past, when regulators did not recognize such taxes as costs in the rate-making process. Regulatory liabilities are primarily attributable to the Utilities' obligation to credit to ratepayers deferred income taxes provided at rates higher than the current federal income tax rate currently being credited to ratepayers using the average rate assumption method and unamortized deferred investment tax credits.

The components of the net deferred income tax liability at December 31, 1999 and December 31, 1998 were as follows:

	December 31, 1999	December 31, 1998
	(In thousands)	
Deferred tax liabilities—		
Accelerated depreciation and other property differences	\$1,125,132	\$806,148
AFUDC-equity	31,274	33,029
Adjustment clauses	16,730	14,965
Other regulatory assets	27,616	29,739
Prepaid pension and other benefits	64,853	34,170
Reacquisition premium on debt	15,919	17,311
Deferred tax assets—		
Deferred investment tax credits	(36,650)	(37,236)
Removal costs	(171,645)	(157,728)
Other postretirement/postemployment benefits	(55,684)	(51,754)
Other, net	(28,871)	(29,353)
	988,674	659,291
Less: Deferred income taxes related to current assets and liabilities	(7,519)	(7,876)
Deferred income taxes—noncurrent	\$ 996,193	\$667,167

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Federal and state income taxes as set forth in the Consolidated Statement of Income are comprised of the following:

	1999	1998	1997
		(In thousands)	
Current income taxes—			
Federal.....	\$ 91,899	\$113,680	\$ 98,126
State.....	14,131	16,484	17,073
	<u>106,030</u>	<u>130,164</u>	<u>115,199</u>
Deferred income taxes, net—			
Federal.....	(7,877)	(20,426)	(1,772)
State.....	(14)	(1,515)	123
	<u>(7,891)</u>	<u>(21,941)</u>	<u>(1,649)</u>
Deferred investment tax credits, net.....	(7,691)	(7,361)	(7,376)
Total income taxes.....	<u>\$ 90,448</u>	<u>\$100,862</u>	<u>\$106,174</u>

A reconciliation of total income tax expense to an amount computed by applying the statutory federal income tax rate to pretax income is as follows:

	1999	1998	1997
		(In thousands)	
Net income	\$160,414	\$193,886	\$190,849
Add—Income taxes	90,448	100,862	106,174
Dividend requirements on preferred stocks of subsidiaries.....	8,334	8,538	8,691
Income before preferred dividend requirements of subsidiaries and income taxes	<u>\$259,196</u>	<u>\$303,286</u>	<u>\$305,714</u>
Amount derived by multiplying pretax income by statutory rate.....	\$ 90,719	\$106,150	\$107,000
Reconciling items multiplied by the statutory rate:			
Book depreciation over related tax depreciation	3,934	3,992	4,072
Amortization of deferred investment tax credits	(7,691)	(7,361)	(7,376)
State income taxes, net of federal income tax benefit	9,171	9,200	11,220
Reversal of deferred taxes provided at rates in excess of the current federal income tax rate.....	(5,457)	(6,472)	(6,151)
Low-income housing credits	(4,512)	(3,840)	(3,056)
Nondeductible amounts related to amortization of intangible assets and plant acquisition adjustments	2,476	2,516	1,640
Other, net.....	1,808	(3,323)	(1,175)
Total income taxes.....	<u>\$ 90,448</u>	<u>\$100,862</u>	<u>\$106,174</u>

PENSION PLANS

Noncontributory, defined benefit retirement plans cover the majority of employees. Benefits under the plans reflect the employees' compensation, years of service and age of retirement.

	1999	1998
	(In thousands)	
Benefit obligation at beginning of year (January 1,).....	\$949,039	\$875,756
Service cost.....	19,811	17,092
Interest cost.....	69,610	60,686
Plan amendments.....	—	14,656
Actuarial (gain) loss.....	(60,108)	38,773
Acquisition of BSG	78,684	—
Benefits paid.....	(66,687)	(57,924)
Benefit obligation at end of the year (December 31,).....	<u>\$990,349</u>	<u>\$949,039</u>

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The change in the fair value of the plans' assets for the years 1999 and 1998 is as follows:

	1999	1998
	(In thousands)	
Fair value of plan assets at beginning of year (January 1,)	\$ 987,030	\$ 924,857
Actual return on plan assets	170,814	85,254
Employer contributions	42,641	34,843
Acquisition of BSG	92,070	—
Benefits paid	(66,687)	(57,924)
Plan assets at fair value at end of the year (December 31,)	\$ 1,225,868	\$ 987,030

The plans' assets are invested primarily in common stocks, bonds and notes.

The plans' funded status as of December 31, 1999 and December 31, 1998 is as follows:

	1999	1998
	(In thousands)	
Plan assets in excess of benefit obligation	\$ 235,519	\$ 37,991
Unrecognized net actuarial (gain)	(150,984)	(10,938)
Unrecognized prior service cost	55,662	57,193
Unrecognized transition amount	22,113	26,813
Prepaid pension costs	\$ 162,310	\$ 111,059

The benefit obligation is the present value of future pension benefit payments and is based on a plan benefit formula which considers expected future salary increases. Discount rates of 7.75% and 7.00% and rates of increase in compensation levels of 4.5% and 4.5% were used to determine the benefit obligations at December 31, 1999 and 1998, respectively.

The long-term portion of prepaid pension cost amounts for 1999 and 1998 are included in "Prepayments and other" in the Consolidated Balance Sheet.

The following items are the components of provisions for pensions for the years ended December 31, 1999, 1998 and 1997:

	1999	1998	1997
	(In thousands)		
Service costs	\$ 19,811	\$ 17,092	\$ 14,438
Interest costs	69,610	60,686	57,645
Expected return on plan assets	(95,228)	(82,671)	(72,253)
Amortization of transition obligation	6,169	5,294	5,326
Amortization of prior service costs	6,510	4,746	3,501
	\$ 6,872	\$ 5,147	\$ 8,657

Assumptions used in the valuation and determination of 1999, 1998 and 1997 pension expense were as follows:

	1999	1998	1997
	(In thousands)		
Discount rate	7.00%	7.00%	7.75%
Rate of increase in compensation levels	4.50%	4.50%	5.50%
Expected long-term rate of return on assets	9.00%	9.00%	9.00%

Certain union employees participate in industry-wide, multi-employer pension plans which provide for monthly benefits based on length of service. Specified amounts per compensated hour for each employee are contributed to the trustees of these plans. Contributions of \$2.5 million, \$2.0 and \$1.7 million were made to these

plans for the years ended December 31, 1999, 1998 and 1997, respectively. The relative position of each employer participating in these plans with respect to the actuarial present value of accumulated plan benefits and net assets available for benefits is not available.

POSTRETIREMENT BENEFITS

NiSource provides certain health care and life insurance benefits for certain retired employees. The majority of employees may become eligible for these benefits if they reach retirement age while working for NiSource.

The expected cost of such benefits is accrued during

the employees' years of service. Current rates include postretirement benefit costs on an accrual basis, including amortization of the regulatory assets that arose prior to inclusion of these costs in rates. Cash contributions are remitted to grantor trusts.

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The following table sets forth the change in the plans' accumulated postretirement benefit obligation (APBO) as of December 31, 1999 and 1998:

	1999	1998
	(In thousands)	
Accumulated postretirement benefit obligation at beginning of year (January 1,)	\$240,601	\$223,908
Service cost	5,531	5,249
Interest cost	18,101	15,793
Participant contributions ..	1,204	—
Plan amendments	—	(283)
Actuarial (gain) loss	(17,627)	8,453
Acquisition of Bay State....	23,205	—
Benefits paid	(17,116)	(12,519)
Accumulated postretirement benefit obligation at end of the year (December 31,).....	<u>\$253,899</u>	<u>\$240,601</u>

The change in the fair value of the plan assets for the years 1999 and 1998 is as follows:

	1999	1998
	(In thousands)	
Fair value of plan assets at beginning of year (January 1,)	\$ 2,903	\$ 2,400
Actual return of plan assets	2,521	1,103
Employer contributions	13,877	10,637
Participant contributions ..	1,204	1,282
Acquisition of Bay State....	26,620	—
Benefits paid	(17,116)	(12,519)
Plan assets at fair value at end of the year (December 31,).....	<u>\$ 30,009</u>	<u>\$ 2,903</u>

Following is the funded status for postretirement benefits as of December 31, 1999 and 1998:

	1999	1998
	(In thousands)	
Funded status	\$(223,890)	\$(237,698)
Unrecognized net actuarial gain	(106,161)	(87,087)
Unrecognized prior service cost	3,550	3,873
Unrecognized transition amount.....	167,322	164,436
Accrued liability for postretirement benefits	<u>\$(159,179)</u>	<u>\$(156,476)</u>

In order to determine the APBO at December 31, 1999, a discount rate of 7.75% and a pre-Medicare medical trend rate of 6% to a long-term rate of 5% was used, and at December 31, 1998, a discount rate of 7% and a pre-Medicare medical trend rate of 7% declining to a long-term rate of 5% was used.

Net periodic postretirement benefit costs, before consideration of the rate-making discussed previously, for the years ended December 31, 1999, 1998 and 1997 include the following components:

	1999	1998	1997
	(In thousands)		
Service costs	\$ 5,531	\$ 5,249	\$ 4,904
Interest costs	18,101	15,793	15,878
Expected return on plan assets	(2,347)	(216)	—
Amortization of prior service cost	322	322	279
Amortization of transition obligation	12,810	11,745	11,558
Amortization of (gain) loss.....	(5,637)	(5,747)	(5,844)
	<u>\$28,780</u>	<u>\$27,146</u>	<u>\$26,775</u>

Assumptions used in the determination of 1999, 1998 and 1997 net periodic postretirement benefit costs were as follows:

	1999	1998	1997
Discount rate.....	7.00%	7.00%	7.75%
Rate of increase in compensation levels	4.50%	4.50%	5.50%
Assumed annual rate of increase in health care benefits	7.00%	8.00%	8.00%
Assumed ultimate trend rate.....	5.00%	5.00%	6.00%

The effect of a 1% increase in the assumed health care cost trend rates for each future year would increase the accumulated postretirement benefit obligation at December 31, 1999 by approximately \$25.6 million, and

increase the aggregate of the service and interest cost components of plan costs by approximately \$5.2 million for the year ended December 31, 1999. The effect of a 1% decrease in the assumed health care cost trend rates

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for each future year would decrease the accumulated postretirement benefit obligation at December 31, 1999 by approximately \$21.1 million, and decrease the aggregate of the service and interest cost components of plan

costs by approximately \$4.0 million. Amounts disclosed above could be changed significantly in the future by changes in health care costs, work force demographics, interest rates, or plan changes.

AUTHORIZED CLASSES OF CUMULATIVE PREFERRED AND PREFERENCE SHARES

NiSource—20,000,000 shares—Preferred—without par value. 4,000,000 shares are designated Series A Junior Participating Preferred Shares and are reserved for issuance pursuant to the Share Purchase Rights Plan described in Common Shares.

The authorized classes of par value and no par value cumulative preferred and preference stocks of Northern Indiana are as follows: Cumulative Preferred—\$100 par value—2,400,000 shares; Cumulative Preferred—no par value—3,000,000 shares; Cumulative Preference—\$50 par value—2,000,000 shares (none outstanding); and Cumulative Preference—no par value—3,000,000 shares (none outstanding).

Indianapolis Water Company—(IWC) 300,000 shares—Cumulative Preferred—\$100 par value.

The preferred shareholders of Northern Indiana and IWC have no voting rights, except in the event of default on the payment of four consecutive quarterly dividends, or as required by Indiana law to authorize additional preferred shares, or by the Articles of Incorporation in the event of certain merger transactions.

The redemption prices at December 31, 1999 for the cumulative preferred stock, which is redeemable solely at

the option of Northern Indiana and IWC, in whole or in part, at any time upon thirty days' notice, were as follows:

	Series	Redemption Price Per Share
Northern Indiana Public Service Company:		
Cumulative preferred stock—\$100 par value—		
4 1/4%		\$101.20
4 1/2%		\$100.00
4.22%		\$101.60
4.88%		\$102.00
7.44%		\$101.00
7.50%		\$101.00
Cumulative preferred stock—no par value—adjustable rate (6.00% at December 31, 1999), Series A (stated value \$50 per share).....		\$50.00
Indianapolis Water Company:		
Cumulative preferred stock—\$100 par value—rates ranging from 4% to 5%		\$100–\$105

The redemption prices at December 31, 1999, as well as sinking fund provisions, for the cumulative preferred stock subject to mandatory redemption requirements, or whose redemption is outside the control of Northern Indiana, were as follows:

Series	Redemption Price Per Share	Sinking Fund Or Mandatory Redemption
Cumulative preferred stock—\$100 par value—		
8.85%	\$100.37, reduced periodically	12,500 shares on or before April 1.
8.35%	\$103.20, reduced periodically	3,000 shares on or before July 1; increasing to 6,000 shares beginning in 2004; noncumulative option to double amount each year.
7 1/4%	\$103.88, reduced periodically	2,777 shares on or before December 1; noncumulative option to double amount each year.
Cumulative preferred stock—no par value—		
6.50%	\$100.00 on October 14, 2002	430,000 shares on October 14, 2002.

Sinking fund requirements with respect to redeemable preferred stocks outstanding at December 31, 1999 for each of the four years subsequent to December 31, 2000 were as follows:

Year Ending December 31,	(In thousands)
2001	\$ 1,828
2002	\$44,828
2003	\$ 1,828
2004	\$ 878
Sinking fund payments due within one year are reported under the caption "Other" in the Consolidated Balance Sheets.	

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COMMON SHARE DIVIDEND

During the next few years, NiSource's ability to pay dividends will depend upon dividends it receives from Northern Indiana. Northern Indiana's Indenture dated August 1, 1939, as amended and supplemented (Indenture), provides that it will not declare or pay any dividends on any class of capital stock (other than preferred or preference stock) except out of the earned sur-

plus or net profits of Northern Indiana. At December 31, 1999, Northern Indiana had approximately \$136.1 million of retained earnings (earned surplus) available for the payment of dividends. Future dividends will depend upon adequate retained earnings, adequate future earnings and the absence of adverse developments.

EARNINGS PER SHARE

Basic earnings per share were computed by dividing net income, reduced for preferred dividends, by the average number of common shares outstanding during the period. The diluted earnings per share calculation

assumes the conversion of nonqualified stock options and the equity forward share purchase contract into common shares.

The net income, preferred dividends and shares used to compute basic and diluted earnings per share is presented in the following table:

	1999	1998	1997
	(Dollars in thousands, except per share amounts)		
Basic			
Weighted Average Number of Shares:			
Average Common Shares Outstanding	124,343,117	120,778,077	123,849,126
Net Income to be Used to Compute Basic Earnings per Average Common Share:			
Net Income	\$160,414	\$193,886	\$190,849
Basic Earnings per Average Common Share	\$ 1.29	\$ 1.60	\$ 1.54
Diluted			
Weighted Average Number of Shares:			
Average Common Shares Outstanding	124,343,117	120,778,077	123,849,126
Dilutive Shares	996,275	556,799	374,344
Weighted Average Shares	125,339,392	121,334,876	124,223,470
Net Income to be Used to Compute Diluted Earnings per Average Common Share:			
Net Income	\$160,414	\$193,886	\$190,849
Diluted Earnings per Average Common Share	\$ 1.27	\$ 1.59	\$ 1.53

COMMON SHARES

On April 8, 1998, shareholders approved an increase in the number of authorized common shares without par value from 200,000,000 shares to 400,000,000 shares. All references to numbers of common shares reported, including per share amounts and stock option data, have been adjusted to reflect the two-for-one stock split paid February 20, 1998.

Share Purchase Rights Plan

Each Right, when exercisable, would initially entitle the holder to purchase from NiSource one two-hundredth of a share of Series A Junior Participating Preferred Share, without par value, at a price of \$30 per one two-hundredth of a share. In certain circumstances, if an acquirer

obtained 25% of NiSource's outstanding shares, or merged into NiSource or merged NiSource into the acquirer, the Rights would entitle the holders to purchase NiSource's or the acquirer's common shares for one-half of the market price. The Rights will not dilute NiSource's common shares nor affect earnings per share unless they become exercisable for common shares. The Plan was not adopted in response to any specific attempt to acquire control of NiSource. The Rights are not currently exercisable. On February 17, 2000, the Board of Directors of NiSource adopted a new Share Purchase Rights Plan which has substantially the same terms as the existing Share Purchase Rights Plan.

Common Share Repurchases

The Board has authorized the repurchase of 62.1 million common shares, subject to certain limits. At December 31, 1999, approximately 56.2 million shares had been repurchased at an average price of \$16.98 per share.

Equity Forward Share Purchase Contract

During the second quarter of 1999, a forward purchase contract was entered into covering the purchase of up to 5% of NiSource's outstanding common shares. At the end of each quarterly period during the term of the forward purchase contract, NiSource has the option, but not the obligation, to settle the forward purchase contract with respect to all or a portion of the common shares held by the counterparty. As of December 31, 1999, the counterparty informed NiSource that approximately 5.6 million shares had been purchased at a weighted average cost of \$26.90 per share. NiSource has

the option to settle with the counterparty by means of physical, net cash or net share settlement. On a quarterly basis, NiSource will pay the counterparty a fee based on the amount paid for common shares purchased by the counterparty, and the counterparty will remit dividends received on shares owned. All such amounts paid and remitted under the contract are reflected in equity contract costs of common shareholders' equity. The net amount was a charge of \$658,128 for the year ending December 31, 1999.

NiSource will be obligated to settle the forward purchase contract with respect to all the remaining common shares in May 2003, or under certain circumstances after an extension period of up to six months, at NiSource's option. As of December 31, 1999, the nominal amount and fair value of the equity forward purchase contract was approximately \$150 million and \$100 million, respectively.

LONG-TERM INCENTIVE PLANS

There are two long-term incentive plans for key management employees that were approved by shareholders on April 13, 1988 (1988 Plan) and April 13, 1994 (1994 Plan), each of which provides for the issuance of up to 5.0 million common shares to key employees through April 1998 and April 2004, respectively. The 1988 Plan, as amended and restated, and the 1994 Plan, as amended and restated, were re-approved by shareholders at the 1999 Annual Meeting of Shareholders, held on April 14, 1999.

At December 31, 1999, there were 1.8 million shares reserved for future awards under the 1994 Plan. The Plans permit the following types of grants, separately or in combination: nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights and performance units. No incentive stock options or performance units were outstanding at December 31, 1999. Under the Plans, the exercise price of each option equals the market price of common stock on the date of grant. Each option has a maximum term of ten years and vests one year from the date of grant.

In connection with the acquisition of BSG, all outstanding BSG nonqualified stock options were replaced with NiSource nonqualified stock options. The replacement of such options did not change their original vesting provisions, terms or fair values. Information regarding these options can be found in the following tables about changes in nonqualified stock options under the caption "converted."

Stock appreciation rights (SARs) may be granted only in tandem with stock options on a one-for-one basis and are payable in cash, NiSource's common shares, or a combination thereof. There were no SARs outstanding at December 31, 1999. Restricted stock awards are restricted as to transfer and are subject to forfeiture for specific periods from the date of grant. Restrictions on shares awarded in 1995 lapse five years from date of grant, and

vesting varies from 0% to 200% of the number awarded, subject to specific earnings per share and stock appreciation goals. Restrictions on shares awarded in 1998 and 1999 lapse two years from date of grant and vesting varies from 0% to 100% of the number awarded, subject to specific performance goals. If a participant's employment is terminated prior to vesting other than by reason of death, disability or retirement, restricted shares are forfeited. There were 513,500, 534,666 and 542,666 restricted shares outstanding at December 31, 1999, 1998 and 1997, respectively.

The Nonemployee Director Stock Incentive Plan, which was approved by shareholders, provides for the issuance of up to 200,000 common shares to nonemployee directors. The Plan provides for awards of common shares which vest in 20% per year increments, with full vesting after five years. The Plan also allows for the award of nonqualified stock options, subject to immediate vesting in the event of the director's death or disability, or a change in control of NiSource. If a director's service on the Board is terminated for any reason other than retirement at or after age seventy, death or disability, any common shares not vested as of the date of termination are forfeited. As of December 31, 1999, 75,500 shares had been issued under the Plan.

These plans are accounted for under Accounting Principles Board Opinion No. 25, under which no compensation cost has been recognized for nonqualified stock options. The compensation cost that was charged against net income for restricted stock awards was \$3.5 million, \$1.9 million and \$2.1 million for the years ended December 31, 1999, 1998 and 1997, respectively. Had compensation cost for nonqualified stock options been determined consistent with SFAS No. 123 "Accounting for Stock-Based Compensation," net income and earnings per average common share would have been reduced to the following pro forma amounts:

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	Year Ended December 31,		
	1999	1998	1997
	(Dollars in thousands, except per share amounts)		
Net Income:			
As reported.....	\$160,414	\$193,886	\$190,849
Pro forma	158,764	192,764	189,999
Earnings Per Average Common Share:			
Basic:			
As reported.....	\$ 1.29	\$ 1.60	\$ 1.54
Pro forma	1.27	1.59	1.53
Diluted:			
As reported.....	\$ 1.27	\$ 1.59	\$ 1.53
Pro forma	1.26	1.59	1.52

The fair value of each option granted as used to determine pro forma net income is estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in the years ended December 31, 1999, 1998 and 1997 respectively: risk-free interest rate of 5.87%, 5.29% and 6.19%; expected dividend yield of \$1.02, \$0.96 and

\$0.90 per share; expected option term of five and one-quarter years for 1999 and 1998, and five years for 1997; and expected volatility of 15.72% for 1999 and 13.09% for 1998 and 12.2% for 1997.

Changes in outstanding shares under option for 1997, 1998 and 1999, are as follows:

	Nonqualified Stock Options	
	Options	Weighted Average Option Price
Year Ended December 31, 1997		
Balance at beginning of year.....	2,360,900	\$15.33
Granted.....	533,600	\$20.64
Exercised	(330,400)	\$15.29
Cancelled	(28,700)	\$19.21
Balance at end of year.....	2,535,400	\$16.41
Shares exercisable.....	2,006,800	\$15.30
Weighted average fair value of options granted	\$2.66	
Year Ended December 31, 1998		
Balance at beginning of year.....	2,535,400	\$16.41
Granted.....	607,000	\$29.22
Exercised	(457,700)	\$14.88
Cancelled	(33,400)	\$16.07
Balance at end of year.....	2,651,300	\$19.61
Shares exercisable.....	2,046,300	\$16.77
Weighted average fair value of options granted	\$4.28	

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Year Ended December 31, 1999	Options	Weighted Average Option Price
Balance at beginning of year	2,651,300	\$19.61
Granted	744,750	\$24.59
Converted	740,780	\$15.03
Exercised	(171,374)	\$14.03
Cancelled	(15,000)	\$28.45
Balance at end of year	3,950,456	\$19.90
Shares exercisable	3,208,206	\$18.82
Weighted average fair value of options granted	\$3.66	

At December 31, 1997, there were 11,200 SARs outstanding with an option price of \$5.47. There were no SARs outstanding at December 31, 1998 or 1999, respectively.

The following table summarizes information about nonqualified stock options at December 31, 1999:

OPTIONS OUTSTANDING AND EXERCISABLE BY PRICE RANGE AS OF DECEMBER 31, 1999

Options Outstanding			Options Exercisable		
Range of Exercise Prices	Outstanding as of December 31, 1999	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable as of December 31, 1999	Weighted Average Exercise Price
\$ 8.53-\$12.76	154,500	1.4	\$10.46	154,500	\$10.46
\$12.77-\$19.15	1,913,119	4.0	\$15.79	1,913,119	\$15.79
\$19.16-\$28.74	1,290,337	8.8	\$22.85	548,087	\$20.48
\$28.75-\$29.22	592,500	8.6	\$29.22	592,500	\$29.22
\$ 8.53-\$29.22	3,950,456	6.1	\$19.90	3,208,206	\$18.81

LONG-TERM DEBT

The sinking fund requirements and maturities of long-term debt outstanding at December 31, 1999, for each of the four years subsequent to December 31, 2000, were as follows:

Year Ending December 31,	(In thousands)
2001	\$127,167
2002	\$119,183
2003	\$157,451
2004	\$118,158

Unamortized debt expense, premium and discount on long-term debt applicable to outstanding bonds are being amortized over the lives of such bonds. Reacquisition premiums have been deferred and are being amortized. These premiums are not earning a return during the recovery period.

The first mortgage bonds constitute a direct first mortgage lien upon certain utility property and franchises. Certain trust indentures require annual sinking or improvement payments amounting to .50% of the maximum aggregate amount outstanding. As permitted, this

requirement has been satisfied by substituting a portion of permanent additions to utility plant.

Northern Indiana is authorized to issue and sell up to \$217,692,000 Medium-Term Notes, Series E, with various maturities, for purposes of refinancing certain first mortgage bonds and medium-term notes. As of December 31, 1999, \$139.0 million of these medium-term notes had been issued with various interest rates and maturities.

In February 1999, \$35.0 million of ten-year medium term notes were issued at a rate of 5.99% with a maturity date of February 1, 2009 and \$45.0 million of twenty-year medium term notes were issued at a rate of 6.61% with a maturity date of February 1, 2019. The majority of the proceeds were used to reduce existing credit facilities and the remaining proceeds were used for general corporate purposes.

The financial obligations of Capital Markets are subject to a Support Agreement between NiSource and Capital Markets, under which NiSource has committed to make payments of interest and principal on Capital Markets' obligations in the event of a failure to pay by Capital

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Markets. Restrictions in the Support Agreement prohibit recourse on the part of Capital Markets' creditors against the stock and assets of Northern Indiana that are owned by NiSource. Under the terms of the Support Agreement, in addition to the cash flow of cash dividends paid to NiSource by any of its consolidated subsidiaries, the

assets of NiSource, other than the stock and assets of Northern Indiana, are available as recourse for the benefit of Capital Markets' creditors. The carrying value of the assets of NiSource, other than the assets of Northern Indiana, were approximately \$3.2 billion at December 31, 1999.

CURRENT PORTION OF LONG-TERM DEBT

At December 31, 1999 and 1998, NiSource's current portion of long-term debt due within one year was as follows:

	December 31, 1999	December 31, 1998
	(In thousands)	
Medium-term notes—Interest rates between 6.0% and 6.93% with a weighted average interest rate of 6.80% and maturities between September 1, 1999, and November 17, 2006	\$166,254	\$ —
Notes payable—Interest rates between 6.72% and 10.08% with a weighted average interest rate of 7.82% and maturities between August 15, 2000, and January 1, 2007	4,467	4,790
Sinking funds due within one year	3,000	2,000
Total current portion of long-term debt	\$173,721	\$6,790

SHORT-TERM BORROWINGS

NiSource and its subsidiaries may borrow under two five-year \$100 million revolving credit agreements that terminate on September 23, 2003 and two 364-day \$100 million revolving credit agreements that terminate on September 23, 2000. The 364-day agreements may be extended at expiration for additional periods of 364 days. Under these agreements, funds are borrowed at a floating rate of interest or, under certain circumstances, at a fixed rate of interest for short-term periods. These agreements provide financing flexibility and may be used to support the issuance of commercial paper. At December 31, 1999, there were no borrowings outstanding under these agreements.

In addition, various NiSource subsidiaries maintain lines of credit for up to an aggregate of \$199.9 million with lenders at either the lender's commercial prime or market lending rates. As of December 31, 1999, there were \$54.1 million of borrowings outstanding under these lines of credit with a weighted average interest rate of 6.06%. As of December 31, 1998, there were \$84.1 million of borrowings outstanding under these lines of credit.

NiSource and its subsidiaries maintain market lines of credit for up to \$394.4 million. As of December 31, 1999, there were \$156.2 million outstanding under

these money market lines of credit with a weighted average interest rate of 6.78%. At December 31, 1998, there were \$127.3 million of borrowings outstanding under these money market lines of credit.

In September 1999, Capital Markets issued \$160 million PURS in an underwritten public offering. The PURS are unsecured debentures of Capital Markets and rank equally with all other unsecured and unsubordinated debt of Capital Markets. The PURS are subject to a call option under which the underwriters may purchase all of the outstanding PURS from the holders on September 28, 2000. The net proceeds from the sale of the PURS and the call option of \$162.4 million were used to refinance short-term indebtedness incurred in connection with the acquisition of BSC in February 1999. Until September 28, 2000, the PURS will accrue interest at a rate based on LIBOR plus 1.25%. On September 28, 2000, if the underwriters do not exercise their call option, Capital Markets will be obligated to repurchase all of the outstanding PURS. If the underwriters purchase all of the outstanding PURS pursuant to their call option, the interest rate will be reset to a fixed rate based on then current market rates plus a fixed margin and the PURS will remain outstanding until 2010.

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At December 31, 1999 and 1998, NiSource's short-term borrowings were as follows:

	December 31, 1999	December 31, 1998
	(In thousands)	
Commercial paper—		
Weighted average interest rate of 6.29% at December 31, 1999	\$299,565	\$193,700
Notes payable—		
Interest rates between 4.96% and 7.45% with a weighted average interest rate of 6.57% and maturities between January 10, 2000 and March 15, 2000	379,756	217,340
Total short-term borrowings	\$679,321	\$411,040

Corporate Premium Income Equity Securities and Company-Obligated Mandatorily Redeemable Preferred Securities of Trust Holding Solely Company Debentures

In February 1999 NiSource completed an underwritten public offering of Corporate PIES. The net proceeds of approximately \$334.7 million were primarily used to fund the cash portion of the consideration payable in the acquisition of BSG, and to repay short-term indebtedness.

The Corporate PIES were offered as one unit comprised of two separable instruments. The first component consists of stock purchase contracts to purchase, four years from the date of issuance, common shares at a face value of \$50. The second component consists of mandatorily redeemable preferred securities (Preferred Securities) which represent an undivided beneficial ownership interest in the assets of NIPSCO Capital Trust I (Capital Trust). The Preferred Securities have a stated liquidation amount of \$50. The sole assets of Capital Trust are subordinated debentures (Debentures) of Capital Markets that earn interest at the same rates as the Preferred Securities to which they relate, and certain rights under related guarantees by Capital Markets. The Preferred Securities have been pledged to secure the holders' obligation to purchase common shares under the stock purchase contracts.

The face value of the stock purchase contracts is not recorded in the Consolidated Balance Sheet. A \$22.2 million present value contract fee payable to the stock purchase contract holders has been recorded as a liability and as reduction to paid-in capital. In addition, paid-in capital has been reduced by \$10.4 million for the issuance costs of the stock purchase contracts.

The distributions paid on Preferred Securities are presented under the caption "minority interests" in NiSource's Consolidated Statements of Income. The amounts outstanding are presented under the caption, "Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely company debentures," in NiSource's Consolidated Balance Sheet. At December 31, 1999, there were 6.9 million 5.9% Preferred Securities outstanding with Capital Trust assets of \$345 million.

The distributions paid on Preferred Securities are presented under the caption "minority interests" in NiSource's Consolidated Statements of Income. The amounts outstanding are presented under the caption, "Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely company debentures," in NiSource's Consolidated Balance Sheet. At December 31, 1999, there were 6.9 million 5.9% Preferred Securities outstanding with Capital Trust assets of \$345 million.

OPERATING LEASES

The following is a schedule, by years, of future minimum rental payments, excluding those to associated companies, required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 1999:

Year Ending December 31,	(In thousands)
2000	\$34,372
2001	34,223
2002	64,639
2003	80,513
2004	25,341
Later years	218,905
Total minimum payments required	\$457,993

The consolidated financial statements include rental expense for all operating leases as follows:

Year Ending December 31,	(In thousands)
1999	\$50,277
1998	23,700
1997	8,837

COMMITMENTS

NiSource expects that approximately \$1.6 billion will be expended for construction purposes for the period from January 1, 2000 to December 31, 2004. Substantial commitments have been made in connection with this construction program.

construction program.

Northern Indiana has entered into a service agreement with Pure Air, a general partnership between Air Products and Chemicals, Inc. and Mitsubishi Heavy Industries

America, Inc., under which Pure Air provides scrubber services to reduce sulfur dioxide emissions for Units 7 and 8 at Bailly Generating Station. Services under this contract commenced on June 15, 1992 with annual charges approximating \$20 million. The agreement provides that, assuming various performance standards are met by Pure Air, a termination payment would be due if Northern Indiana terminates the agreement prior to the end of the twenty-year contract period.

A ten-year agreement to outsource all data center, application development and maintenance, and desktop management expires in 2005. Annual fees under the agreement are approximately \$20 million.

Primary Energy, Inc. ("Primary") arranges energy-related projects for large energy-intensive customers and offers such customers nationwide expertise in managing the engineering, construction, operation and maintenance of such projects. Through its subsidiaries, Primary

has entered into agreements with several of NiSource's largest industrial customers, principally steel mills and a refinery, to service a portion of their energy needs. In order to serve its customers under the agreements, Primary, through its subsidiaries, has entered into certain operating lease commitments to lease these energy-related projects which have a combined capacity of 393 megawatts. NiSource, principally through Capital Markets, guarantees certain of Primary's obligations under each lease, which are included in the Operating Leases.

Primary has advanced approximately \$36.6 million and \$31.8 million, at December 31, 1999 and December 31, 1998, respectively, to the lessors of the energy-related projects discussed above. These net advances are included in "Other Receivables" in the Consolidated Balance Sheet and as a component of operating activities in the Consolidated Statement of Cash Flows.

RISK MANAGEMENT ACTIVITIES

NiSource uses certain commodity-based derivative financial instruments to manage certain risks inherent in its business. NiSource's senior management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in the identification, assessment and control of various risks. The open positions resulting from risk management activities are managed in accordance with strict policies which limit exposure to market risk and require daily reporting to management of potential financial exposure.

NiSource uses futures contracts, options and swaps to hedge a portion of its price risk associated with its non-trading activities in gas supply for its regulated gas utilities, certain customer choice programs for residential customers and other retail customer activity. At December 31, 1999, NiSource had futures contracts representing the hedge of natural gas sales in the notional amount of 8.0 billion cubic feet (BCF) resulting in a deferred gain of \$0.9 million.

NiSource's trading operations includes the activities of its power trading business and non-affiliated transactions associated with TPC. NiSource employs a VaR model to assess the market risk of its energy trading portfolios. NiSource estimates the one-day VaR for both trading groups which utilize derivatives using either a Monte Carlo simulation or variance/covariance at a 95 percent confidence level. Based on the results of the VaR analysis,

the daily market exposure for power trading on an average, high and low basis was \$0.4, \$1.2 and \$0.014 million during 1999, respectively. The daily VaR for the gas trading portfolio on an average, high and low basis was \$1.3, \$2.1 and \$0.4 million during 1999, respectively. There were no significant trading positions during 1998.

Unrealized gains and losses on our portfolio are recorded as price risk management assets and liabilities. The market prices used to value price risk management activities reflect the best estimate of market prices considering various factors, including closing exchange and over-the-counter quotations and price volatility factors underlying the commitments. The accompanying financial statements reflect price risk management assets and liabilities (including net option premiums) of \$32 million and \$54 million at December 31, 1999. Power trading results are reflected on a net basis in the accompanying statement of income, consistent with the guidance in EITF Issue No. 98-10 with respect to the use of written options. NiSource has recorded a net profit of \$11 million as a component of electric revenues for the year ended December 31, 1999. Activities with respect to gas trading are reflected on a gross basis with revenues and cost of goods sold consistent with the physical nature of the trades. NiSource has recorded gas trading revenues and cost of goods sold of approximately \$365 million and \$371 million, respectively for the year ended December 31, 1999.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value:

Cash and cash equivalents

The carrying amount approximates fair value due to the

short maturity of those instruments.

Investments

Where feasible, the fair value of investments is estimated based on market prices for those or similar investments.

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Long-term debt/Preferred stock and Preferred Securities
The fair values of these securities are estimated based on the quoted market prices for the same or similar issues or on the rates offered for securities of the same remaining

maturities. Certain premium costs associated with the early settlement of long-term debt are not taken into consideration in determining fair value.

The carrying values and estimated fair values of financial instruments were as follows:

	December 31, 1999		December 31, 1998	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Cash and cash equivalents	\$ 43,533	\$ 43,533	\$ 60,848	\$ 60,848
Investments	49,064	49,352	36,594	36,028
Long-term debt (including current portion)	2,148,905	1,992,348	1,674,755	1,769,937
Preferred stock (including current portion)	141,469	119,702	143,876	140,420
Preferred securities	\$ 345,000	\$ 248,831	N/A	N/A

A substantial portion of the long-term debt relates to utility operations. The Utilities are subject to regulation and gains or losses may be included in rates over a prescribed amortization period, if in fact settled at amounts approximating those above.

CUSTOMER CONCENTRATIONS

The Utilities supply natural gas, electric energy and water. Natural gas and electric energy are supplied to the northern third of Indiana and portions of Massachusetts, New Hampshire and Maine. The Water Utilities serve Indianapolis, Indiana, and surrounding areas. Although the Energy Utilities have a diversified base of residential and commercial customers, a substantial portion of their electric and gas industrial deliveries are dependent upon

the basic steel industry. The following table shows the basic steel industry percentage of gas revenue (including transportation services) and electric revenue for 1999, 1998 and 1997:

Basic Steel Industry	1999	1998	1997
Gas revenue percent	2%	3%	4%
Electric revenue percent	18%	13%	17%

QUARTERLY FINANCIAL DATA^(a)

The following data summarize certain operating results for each of the quarters of 1999 and 1998:

	1999 Quarters Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(Dollars in thousands, except per share amounts)			
Operating revenues	\$891,604	\$675,294	\$692,993	\$884,685
Operating expenses	735,723	590,370	586,944	770,003
Operating income	155,881	84,924	106,049	114,682
Others income (deductions)				
Interest and other charges	(38,804)	(42,391)	(44,447)	(49,309)
Other, net	4,404	(7,933)	(19,866)	(12,328)
Income taxes	44,922	11,656	13,781	20,089
Net income	\$ 76,559	\$ 22,944	\$ 27,955	\$ 32,956
Basic earnings per average common share ^(a)	\$ 0.62	\$ 0.18	\$ 0.22	\$ 0.26
Diluted earnings per average common share ^(a)	\$ 0.62	\$ 0.18	\$ 0.22	\$ 0.25
Market price for the quarter:				
High	\$ 30.500	\$ 28.188	\$ 26.875	\$ 23.000
Low	\$ 25.875	\$ 25.813	\$ 21.750	\$ 16.563

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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	1998 Quarters Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(Dollars in thousands, except per share amounts)			
Operating revenues	\$779,344	\$652,408	\$747,792	\$753,234
Operating expenses	662,230	573,365	650,844	624,833
Operating income	117,114	79,043	96,948	128,401
Other income (deductions)				
Interest and other charges	32,497	33,243	35,199	36,403
Other, net	8,448	(931)	2,870	197
Income taxes	32,343	15,424	21,492	31,603
Net income	\$ 60,722	\$ 29,445	\$ 43,127	\$ 60,592
Basic earnings per average common share ^(a)	\$ 0.49	\$ 0.24	\$ 0.36	\$ 0.51
Diluted earnings per average common share ^(a)	\$ 0.48	\$ 0.24	\$ 0.35	\$ 0.51
Market price for the quarter:				
High	\$ 28.375	\$ 28.313	\$ 32.875	\$ 33.625
Low	\$ 24.750	\$ 25.813	\$ 26.625	\$ 28.875

(a) Because of the combined mathematical effect of common shares repurchased and issued and the cyclical nature of net income during the year, the sum of earnings per share data for any four quarterly periods may vary slightly from the earnings per share data for the equivalent twelve-month period.

SEGMENTS OF BUSINESS

Operating segments are defined as components of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

There are four reportable operating segments: Gas, Electric, Water and Gas Marketing. The Gas segment includes regulated gas utilities which provide natural gas distribution and transportation services. The Electric segment is comprised principally of Northern Indiana, a regulated electric utility, which generates, transmits and distributes electricity. In addition, the Electric segment includes wholesale power marketing and trading operation which markets wholesale power to other utilities and electric power marketers. The Water segment includes regulated water utilities which provide distribution of water supply to the public. The Gas Marketing segment provides natural gas marketing, trading, storage and sales to wholesale and industrial customers.

Reportable segments are operations that are managed separately and meet certain quantitative thresholds. The Other Products and Services column includes a variety of businesses, such as installation, repair and maintenance of underground pipelines, utility line locating and mark-

ing, the arrangement of energy-related projects for large energy-intensive facilities, and other products and services, which collectively do not constitute a segment for reporting purposes.

Revenues for each segment are principally attributable to customers in the United States. Additional revenues, which are insignificant to consolidated revenues, are attributable to customers in Canada and the United Kingdom.

The following tables provide information about business segments. NiSource uses income before interest and income taxes as its primary measurement for each of the reported segments. NiSource makes decisions on finance, dividends and taxes at the corporate level. These topics are addressed on a consolidated basis. In addition, adjustments have been made to the segment information to arrive at information included in the results of operations and financial position. These adjustments include unallocated corporate assets, revenues and expenses and the elimination of intercompany transactions. The accounting policies of the operating segments are the same as those described in "Summary of Significant Accounting Policies."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Concluded)

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1999	Gas Utilities	Electric	Water	Gas Marketing	Other Products & Services	Corporate and Adjust- ments	Total
	(In thousands)						
Operating revenues	\$1,072,778	\$1,124,157	\$ 98,500	\$771,776	\$283,528	\$(206,163)	\$3,144,576
Other Income (Deductions)	\$ 4,162	\$ 756	\$ 1,982	\$ 5,206	\$(22,711)	\$(7,425)	\$(18,030)
Depreciation and amortization	\$ 116,145	\$ 158,976	\$ 15,427	\$ 3,136	\$ 13,109	\$ 4,611	\$ 311,404
Income before Interest and Other Charges and Income Taxes	\$ 119,606	\$ 363,674	\$ 29,139	\$(485)	\$(16,482)	\$(51,946)	\$ 443,506
Assets	\$2,424,695	\$2,764,397	\$685,346	\$597,008	\$555,206	\$(191,423)	\$6,835,229
Capital Expenditures	\$ 145,182	\$ 134,019	\$ 64,590	\$ 733	\$ 13,999	\$ —	\$ 358,523
Investment in equity—method investees	\$ —	\$ —	\$ —	\$ 7,620	\$129,145	\$ —	\$ 136,765

1998	Gas Utilities	Electric	Water	Gas Marketing	Other Products & Services	Corporate and Adjust- ments	Total
	(In thousands)						
Operating revenues	\$ 637,098	\$1,429,986	\$ 83,979	\$657,692	\$226,901	\$(102,878)	\$2,932,778
Other Income (Deductions)	\$ 2,802	\$ 553	\$ 712	\$ 2,017	\$ 3,813	\$ 1,711	\$ 11,608
Depreciation and amortization	\$ 75,547	\$ 156,844	\$ 11,589	\$ 332	\$ 11,223	\$ 939	\$ 256,474
Income before Interest and Other Charges and Income Taxes	\$ 68,284	\$ 341,433	\$ 23,460	\$ 5,006	\$ 5,814	\$(10,883)	\$ 433,114
Assets	\$1,074,501	\$2,774,482	\$619,505	\$121,574	\$465,674	\$(69,233)	\$4,986,503
Capital Expenditures	\$ 62,981	\$ 124,044	\$ 59,265	\$ 24	\$ 11,325	\$ —	\$ 257,639
Investment in equity—method investees	\$ —	\$ —	\$ —	\$ 6,707	\$104,633	\$ —	\$ 111,340

1997	Gas Utilities	Electric	Water	Gas Marketing	Other Products & Services	Corporate and Adjust- ments	Total
	(In thousands)						
Operating revenues	\$ 807,239	\$1,186,331	\$ 60,743	\$480,986	\$172,977	\$(121,735)	\$2,586,541
Other Income (Deductions)	\$ 821	\$ 637	\$ 1,465	\$ 3,349	\$ 11,047	\$(1,195)	\$ 16,124
Depreciation and amortization	\$ 73,017	\$ 153,843	\$ 8,241	\$ 233	\$ 13,005	\$ 1,465	\$ 249,804
Income before Interest and Other Charges and Income Taxes	\$ 88,950	\$ 312,243	\$ 19,363	\$ 7,085	\$ 13,057	\$(14,021)	\$ 426,677
Assets	\$1,111,372	\$2,746,232	\$565,717	\$ 94,690	\$491,550	\$(72,528)	\$4,937,033
Capital Expenditures	\$ 64,009	\$ 115,012	\$ 39,910	\$ —	\$ —	\$ —	\$ 218,931
Investment in equity—method investees	\$ —	\$ —	\$ —	\$ 6,710	\$ 76,145	\$ —	\$ 82,855

The following table reconciles total reportable segment income before interest and other charges and income taxes to NiSource's consolidated net income for each of the years ending 1999, 1998 and 1997 as follows:

	1999	1998	1997
	(In thousands)		
Total segment profit	\$ 443,506	\$ 433,114	\$ 426,677
Interest expense, net	(166,617)	(128,804)	(120,607)
Minority interests	(17,693)	(1,024)	(356)
Dividends requirements on preferred stock	(8,334)	(8,538)	(8,691)
Income before income taxes	250,862	294,748	297,023
Less: income taxes	90,448	100,862	106,174
Net Income	\$ 160,414	\$ 193,886	\$ 190,849

SELECTED SUPPLEMENTAL INFORMATION

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Gas Statistics	Year Ended December 31,		
	1999	1998	1997
Operating Revenues (\$000's):			
Sales			
Residential	\$ 572,134	\$ 385,030	\$ 479,461
Commercial	207,533	124,903	164,359
Industrial	58,498	62,003	78,531
Total	838,165	571,936	722,351
Transportation			
Residential	5,609	741	—
Commercial	34,350	4,873	1,742
Industrial	35,124	34,279	35,062
Total	75,083	39,893	36,804
Transmission	2,073	2,955	2,581
Gas marketing and trading	710,376	623,338	419,419
Other*	27,753	(28,347)	3,466
Total	\$ 1,653,450	\$ 1,209,775	\$ 1,184,621
Deliveries in dth (000's):			
Sales			
Residential	92,766	63,514	79,816
Commercial	38,834	24,256	31,640
Industrial	13,205	12,824	16,989
Total	144,805	100,594	128,445
Transportation			
Residential	1,592	207	—
Commercial	40,928	5,384	3,957
Industrial	188,056	177,604	165,627
Total	230,576	183,195	169,584
Transmission	21,878	19,695	31,275
Gas marketing and trading	354,399	311,942	249,857
Other	601	503	566
Total	752,259	615,929	579,727
Customers Served—End of Year:			
Sales			
Residential	939,426	675,782	669,833
Commercial	85,632	53,061	55,088
Industrial	3,788	3,801	4,179
Total	1,028,846	732,644	729,100
Transportation			
Residential	30,947	3,207	—
Commercial	10,687	2,857	36
Industrial	664	613	229
Total	42,298	6,677	265
Transmission	8	8	9
Other	69	71	75
Total	1,071,221	739,400	729,449

*Includes deferred gas cost revenue of \$(4,474), \$(42,055) and \$(11,075), respectively.

SELECTED SUPPLEMENTAL INFORMATION (Continued)

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	Year Ended December 31,		
	1999	1998	1997
Electric Statistics			
Operating Revenues (\$000's): ^a			
Residential	\$ 294,223	\$ 290,738	\$ 272,619
Commercial	275,160	267,718	253,235
Industrial	415,388	404,507	416,741
Street lighting.....	8,976	8,740	8,697
Wholesale	90,006	430,422	214,150
Other**	37,285	24,475	19,149
Total	\$ 1,121,038	\$ 1,426,600	\$ 1,184,591
Sales in kilowatt-hours (000's): ^a			
Residential	2,996,650	2,936,762	2,723,990
Commercial	3,292,066	3,159,095	2,973,823
Industrial	9,186,132	8,782,363	8,971,926
Street lighting.....	59,713	57,607	57,764
Wholesale	2,765,394	14,480,608	8,688,014
Other.....	79,024	64,037	84,935
Total	18,378,979	29,480,472	23,500,452
Customers Served—End of Year:			
Residential	376,483	372,383	368,907
Commercial	45,821	44,960	43,802
Industrial	2,677	2,736	2,764
Other.....	852	868	885
Total	425,833	420,947	416,358

**Includes deferred fuel cost revenue of \$10,480, \$(8,880) and \$(5,223), respectively.

	Year Ended December 31,		
	1999	1998	1997***
Water Statistics			
Operating Revenues (\$000's):			
Residential	\$ 65,830	\$ 55,281	\$ 39,570
Commercial	22,393	19,942	14,763
Industrial	4,855	4,227	3,015
Other.....	5,305	4,529	3,395
Total	\$ 98,383	\$ 83,979	\$ 60,743
Sales in millions of gallons (000's):			
Residential	25,964	22,454	18,095
Commercial	13,711	13,029	10,345
Industrial	4,690	4,392	3,310
Other.....	1,059	947	754
Total	45,424	40,822	32,504
Customers Served—End of Year:			
Residential	254,075	232,333	225,627
Commercial	17,338	17,265	17,083
Industrial	343	348	347
Other.....	3,932	3,718	3,586
Total	275,688	253,664	246,643

***Amounts are for the period April 1997 through December 1997.

^a1997 and 1998 revenues and sales have been restated for consolidation.

SELECTED SUPPLEMENTAL INFORMATION (Continued)

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	Year Ended December 31,	1999	1998	1997
Operating Revenues				
Gas (\$000's) ^a		\$ 1,653,450	\$ 1,209,775	\$ 1,184,621
Electric (\$000's) ^a		1,121,038	1,426,600	1,184,591
Water (\$000's)		98,383	83,979	60,743
Products and Services (\$000's) ^a		271,705	212,424	156,586
Total Operating Revenues (\$000's)		\$ 3,144,576	\$ 2,932,778	\$ 2,586,541
Operating Margin (\$000's)		\$ 1,493,525	\$ 1,240,411	\$ 1,210,927
Operating Income (\$000's)		\$ 461,536	\$ 421,506	\$ 410,553
Net Income (\$000's)		\$ 160,414	\$ 193,886	\$ 190,849
Shares outstanding at year end		124,139,392	117,530,698	124,312,664
Number of common shareholders		40,741	36,277	37,373
Basic earnings per average common share		\$ 1.29	\$ 1.60	\$ 1.54
Diluted earnings per average common share		\$ 1.27	\$ 1.59	\$ 1.53
Return on average common equity		12.8%	16.1%	16.1%
Times interest earned (pre-tax)		2.07	3.13	3.43
Dividends paid per share		\$ 1.02	\$ 0.96	\$ 0.90
Dividend payout ratio		79.1%	60.0%	58.4%
Market values during the year:				
High		\$ 30.500	\$ 33.625	\$ 24.938
Low		\$ 16.563	\$ 24.750	\$ 19.000
Close		\$ 17.875	\$ 30.437	\$ 24.719
Book value of common shares		\$ 10.90	\$ 9.78	\$ 10.17
Market-to-book ratio at year end		163.9%	311.2%	243.1%
Total Assets (\$000's)		\$ 6,835,229	\$ 4,986,503	\$ 4,937,033
Utility construction expenditures (\$000's) ^b		\$ 341,263	\$ 245,825	\$ 218,931
Capitalization:				
Common shareholders' equity (\$000's)		\$ 1,353,504	\$ 1,149,708	\$ 1,264,788
Preferred and preference stock—				
Northern Indiana Public Service Company:				
Series without mandatory redemption provision (\$000's)		\$ 81,114	\$ 81,116	\$ 81,123
Series with mandatory redemption provisions (\$000's)		\$ 54,030	\$ 56,435	\$ 58,841
NIPSCO Industries, Inc.:				
Series with mandatory redemption provision (\$000's)		\$ —	\$ —	\$ —
Indianapolis Water Company:				
Series without mandatory redemption provision (\$000's)		\$ 4,497	\$ 4,497	\$ 4,497
Company obligated, mandatorily redeemable preferred securities of trust holding solely Company debentures		\$ 345,000	\$ —	\$ —
Long-Term debt (\$000's)		\$ 1,975,184	\$ 1,667,965	\$ 1,667,925
Total Capitalization (\$000's)		\$ 3,813,329	\$ 2,959,721	\$ 3,077,174
Number of employees		7,399	6,035	5,984

Notes: ^a1998 and 1997 revenues restated for consolidation.

^bIncluding AFUDC.

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1996	1995	1994	1993	1992	1991	1990	1989
\$ 799,395	\$ 691,402	\$ 681,909	\$ 714,229	\$ 666,221	\$ 601,920	\$ 625,159	\$ 677,262
1,022,231	1,030,923	994,492	963,643	916,135	933,241	895,836	882,303
—	—	—	—	—	—	—	—
166,322	46,983	91,628	59,387	—	—	—	—
\$ 1,987,948	\$ 1,769,308	\$ 1,768,029	\$ 1,737,259	\$ 1,582,356	\$ 1,535,161	\$ 1,520,995	\$ 1,559,565
\$ 1,115,965	\$ 1,074,820	\$ 1,014,566	\$ 1,001,542	\$ 927,089	\$ 919,951	\$ 885,262	\$ 900,035
\$ 386,308	\$ 381,877	\$ 353,452	\$ 355,918	\$ 246,217	\$ 254,354	\$ 247,777	\$ 252,807
\$ 176,734	\$ 175,465	\$ 163,987	\$ 156,140	\$ 136,648	\$ 133,388	\$ 125,361	\$ 72,112 ^c
119,611,322	124,759,192	127,810,778	131,657,676	131,516,700	133,343,230	137,748,458	138,738,984
35,339	37,299	39,172	41,038	38,097	39,346	41,285	43,763
\$ 1.44	\$ 1.36	\$ 1.24	\$ 1.15	\$ 1.00	\$ 0.97	\$ 0.90	\$ 0.50 ^c
\$ 1.43	\$ 1.35	\$ 1.23	\$ 1.15	\$ 0.99	\$ 0.96	\$ 0.89	\$ 0.49 ^c
15.9%	15.5%	14.6%	14.4%	13.1%	12.9%	12.7%	7.2% ^c
3.62	3.72	3.61	3.48	3.17	2.93	2.81	2.02 ^c
\$ 0.84	\$ 0.78	\$ 0.72	\$ 0.66	\$ 0.62	\$ 0.58	\$ 0.52	\$ 0.42
58.3%	57.4%	58.1%	57.4%	62.0%	59.8%	57.8%	84.0% ^c
\$ 20.125	\$ 19.250	\$ 16.500	\$ 17.438	\$ 13.313	\$ 13.500	\$ 9.625	\$ 9.813
\$ 17.625	\$ 14.625	\$ 13.063	\$ 13.063	\$ 11.250	\$ 9.250	\$ 7.875	\$ 6.563
\$ 19.813	\$ 19.125	\$ 14.875	\$ 16.438	\$ 13.250	\$ 12.875	\$ 9.438	\$ 9.688
\$ 9.20	\$ 9.00	\$ 8.67	\$ 8.31	\$ 7.87	\$ 7.59	\$ 7.30	\$ 6.96
215.4%	212.5%	171.6%	197.8%	168.4%	169.6%	129.3%	139.2%
\$ 4,288,883	\$ 3,999,520	\$ 3,947,138	\$ 3,912,324	\$ 3,807,941	\$ 3,647,557	\$ 3,625,181	\$ 3,657,718
\$ 207,881	\$ 192,966	\$ 202,545	\$ 180,852	\$ 172,329	\$ 168,958	\$ 152,280	\$ 150,786
\$ 1,100,501	\$ 1,122,215	\$ 1,107,848	\$ 1,094,672	\$ 1,034,530	\$ 1,011,666	\$ 1,005,982	\$ 965,437
\$ 81,126	\$ 81,325	\$ 86,389	\$ 97,753	\$ 97,917	\$ 98,710	\$ 99,374	\$ 99,874
\$ 61,246	\$ 63,651	\$ 66,057	\$ 68,462	\$ 70,668	\$ 53,978	\$ 59,358	\$ 66,309
\$ —	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000	\$ —
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
\$ 1,127,106	\$ 1,175,728	\$ 1,180,338	\$ 1,192,500	\$ 1,054,454	\$ 1,068,708	\$ 1,165,682	\$ 1,261,760
\$ 2,369,979	\$ 2,477,919	\$ 2,475,632	\$ 2,488,387	\$ 2,292,569	\$ 2,268,062	\$ 2,365,396	\$ 2,393,380
4,168	4,356	4,441	4,602	4,648	4,600	4,547	4,825

^cEarnings per share were reduced by \$0.72 due to the \$82.0 million refund, less associated tax benefits of \$30.3 million, related to the Bailly N1 generating unit.

GLOSSARY OF SELECTED ENERGY TERMS

British Thermal Unit (Btu): The standard unit for measuring quantity of heat energy. One Btu is the amount of heat energy required to raise the temperature of one pound of water 1° Fahrenheit at a specified temperature.

Cogeneration: The sequential production of thermal and electric energy from the same fuel source.

Construction Work in Progress (CWIP): A sub-account in the utility plant section of the balance sheet representing the sum of the balances of work orders for utility plant in process of construction, but not yet placed in service.

Deferred Taxes: Income taxes resulting from the use of income tax law provisions which allow recognition of certain items of revenue and expense in the tax return prior to their being recorded on the books of the Company. Deferred taxes do not constitute earnings available to pay dividends to investors.

Dekatherm (dth): A unit of heating value equivalent to 10 therms or 1,000,000 Btus; equal to 1,000 cubic feet (1 mcf) at 1,000 Btus per cubic foot.

Distributed Generation: A system of energy production that is located at the point of use. It typically involves less than 500 kilowatts of capacity and often includes provisions for thermal energy recovery and electric production.

Federal Energy Regulatory Commission (FERC): An independent five-member commission within the Department of Energy responsible for setting rates and charges for the wholesale transportation and sale of natural gas and electricity; the licensing of hydroelectric power projects; and for establishing rates or charges for the transportation of oil by pipeline, as well as the valuation of such pipelines.

Firm Power, Electric: Power or power-producing capacity intended to be available at all times during the period covered by a commitment, even under adverse conditions.

Kilowatt (kw): 1,000 watts. A watt is a measure of the rate at which electricity is generated or consumed.

Megawatt (mw): The generating capacity of utility plants is expressed in megawatts; a megawatt is 1,000 kilowatts or 1 million watts.

Operating Margin: The difference between operating revenues and the cost of sales. It is the contribution made to cover all other operating costs, fixed costs and profit margin.

Peak Load, Demand: Electricity or gas supplied during a period of the greatest demand.

Rate Base: The amount invested on which a regulatory agency allows utilities to earn a return.

Spot Market Gas: Natural gas purchased under short-term agreement by a gas utility or end user from sources other than pipeline companies.

Therm: A quantity of heat equivalent to 100,000 British thermal units (Btus).

Transportation Rates: Rates charged by a gas utility when it simply moves gas owned by a third party through its system.

Utility Plant: All property and equipment used for the generation, transmission, and distribution of electricity, storage, transmission and distribution of gas, and transmission and distribution of water.

Wheeling: Electric utility operation wherein transmission facilities of one system are used to transmit power produced by another system.

References

- Lewis, Adam, *Salmon of the Pacific*. Vancouver: Raincoast Books, 1994.
Steelquist, Robert, *Field Guide to the Pacific Salmon*. Seattle: Sasquatch Books, 1992, 1996.

SHAREHOLDER INFORMATION AND SERVICES

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NISOURCE INC. common shares are listed and traded on the New York, Pacific and Chicago stock exchanges under the symbol NI. The shares are listed in financial stock quotations as NISOURCE. As of December 31, 1999, NISOURCE INC. had 40,741 common shareholders.

NISOURCE SHAREHOLDER SERVICES WILL ASSIST YOU WITH:

- Address changes
- Automatic Dividend Reinvestment and Share Purchase Plan
- Consolidation of accounts
- Direct deposit of dividends
- Dividend reinvestment plan statement history
- Duplicate 1099 or W-9 tax certification forms
- Duplicate mailings
- Electronic funds transfer
- Lost, destroyed or stolen stock certificates
- Name changes
- Replacement of dividend checks
- Safekeeping program
- Stock ownership
- Stock transfers

COMMON DIVIDEND INCREASED

At its regular meeting on December 17, 1999, the Board of Directors increased the dividend on common shares. The quarterly dividend was increased to 27 cents per share, or \$1.08 on an annual basis. The common dividend was 25½ cents per share for the previous four quarters, or \$1.02 on an annual basis.

ASK ABOUT OUR SERVICES

Direct Deposit of Dividends (Electronic Funds Transfer)

Stockholders of record can have immediate access to dividend money. Your dividend money can be deposited directly into your checking or savings account. Verification of dividend receipts will appear on your monthly bank statements.

Automatic Dividend Reinvestment and Share Purchase Plan

The Company's Automatic Dividend Reinvestment and Share Purchase Plan provides holders of the Company's common shares with a convenient and economical way to purchase additional common shares of the Company without payment of brokerage fees or commissions. Participants may also make voluntary cash payments for the purchase of additional shares. Some important features of the Plan:

- Cash contributions are invested once each month.
- Voluntary cash contributions from \$25 to \$5,000 can be made each quarter.
- A "safekeeping" feature allows shareholders to have Harris Trust and Savings Bank hold their shares.

Safekeeping Program

Shareholders who are participants in the Automatic Dividend Reinvestment and Share Purchase Plan can select the Safekeeping Program for their shares. Some of the advantages of Safekeeping are elimination of lost, destroyed or stolen stock certificates, avoidance of costly stock replacement fees and no need for a safety deposit box to store stock certificates.

Telephone Contact

Shareholder Services' hours are 8:00 a.m. to 5:00 p.m. Central Time, Monday through Friday.

Local calls 219-853-5700
Long Distance (Toll-Free) 800-348-6466

Written Requests

Form 10-K Requests and Correspondence
NiSource Inc.
Shareholder Services Department
5265 Hohman Avenue
Hammond, Indiana 46320

Transfer Agent, Registrar, Shareholder Records and Dividend Disbursing Agent

Harris Trust and Savings Bank
Corporate Agencies
311 W. Monroe Street, 11th Floor
Chicago, Illinois 60606

Anticipated Dividend Record and Payment Dates

Common	
Record Date	Payment Date
April 28, 2000	May 19, 2000
July 31, 2000	August 18, 2000
October 31, 2000	November 20, 2000
January 31, 2001	February 20, 2001

Preferred	
Record Date	Payment Date
March 16, 2000	April 14, 2000
June 16, 2000	July 14, 2000
September 15, 2000	October 13, 2000
December 15, 2000	January 12, 2001

OFFICERS OF THE CORPORATION AND PRINCIPAL SUBSIDIARIES

Bay State Gas Company
D.T.E. 05-27
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NISOURCE INC.

Gary L. Neale Chairman, President and Chief Executive Officer	Joseph L. Turner, Jr. Senior Vice President	Gail W. Harowski Assistant Treasurer	James M. Clarke Risk Management Officer, NiSource Corporate Services Company
Stephen P. Adik Senior Executive Vice President, Chief Financial Officer and Treasurer	Thomas J. Aruffo Vice President and Chief Information Officer	Dennis E. Senchak Assistant Treasurer	Daniel D. Gavito Vice President, Corporate Gas Supply, NiSource Corporate Services Company
Patrick J. Mulchay Executive Vice President	David A. Kelly Vice President, Tax	Nina M. Rausch Secretary	Francis P. Girot, Jr. Treasurer, NiSource Corporate Services Company
Jeffrey W. Yundt Executive Vice President	Mark T. Maassel Vice President, Regulatory and Government Policy	Gary W. Pottorff Auditor	Arthur A. Paquin Controller, NiSource Corporate Services Company
James K. Abcouwer Senior Vice President	Mark D. Wyckoff Vice President, Human Resources and Assistant Secretary	Arthur E. Smith, Jr. Environmental Officer and Counsel	

NORTHERN INDIANA PUBLIC SERVICE COMPANY

Patrick J. Mulchay President and Chief Operating Officer	Peggy H. Landini Vice President, Commercial Operations	Robert J. Schacht Vice President, Distribution Operations	David J. Vajda Vice President, Finance
Jerry L. Godwin Vice President and General Manager, Electric Supply			

BAY STATE GAS COMPANY

Roger A. Young Chairman	Thomas W. Sherman Executive Vice President and Chief Financial Officer	James D. Simpson Senior Vice President, Revenue and Regulatory Development	Barbara S. McKay Vice President, Corporate Communications and Human Resources
Jeffrey W. Yundt President and Chief Executive Officer	Kenneth M. Margossian Senior Vice President, Operations		

IWC RESOURCES CORPORATION

James T. Morris Chairman, Chief Executive Officer and President	David A. Kelly Executive Vice President and Chief Financial Officer	Kenneth N. Giffin Senior Vice President, Governmental Relations, Real Estate and Public Affairs	John M. Davis Vice President, General Counsel and Secretary
Joseph R. Broyles President, IWC Utilities and Indianapolis Water Company			

ENERGYUSA, INC.

James K. Abcouwer President and Chief Executive Officer	Michael B. Stayton Senior Vice President President and Chief Operating Officer, Commercial Group	David W. Manly Vice President and General Manager, Consumer/ Retail Group	John J. McGuire Vice President, Business Development and Customer Relations
William A. Lang Senior Vice President President and Chief Operating Officer, Commodities Group	Donald K. Eldert Vice President President, Commercial Energy Services		

PRIMARY ENERGY, INC.

Joseph L. Turner, Jr. President	V. Michael Alverson Vice President	Dean H. Hall Vice President
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